

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other				Local Unit Name		County	
Fiscal Year End		Opinion Date			Date Audit Report Submitted to State		

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).


YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature 	Printed Name		License Number	

City of Saline, Michigan

**Financial Report
with Supplemental Information
June 30, 2007**

City of Saline, Michigan

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City of Saline, Michigan

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Independent Auditor's Report

To the City Council
City of Saline, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Saline, Michigan (the "City") as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Saline's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Saline, Michigan as of June 30, 2007 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the budgetary comparison schedules are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

To the City Council
City of Saline, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Saline's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

September 12, 2007

City of Saline, Michigan

Management's Discussion and Analysis

Our discussion and analysis of the City of Saline's (the "City") financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2007. Please read it in conjunction with the City's financial statements.

Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended June 30, 2007:

- Revenues from local property taxes increased moderately for the seventh consecutive year while maintaining the same local tax rate as in the prior fiscal year, in spite of a decline in valuation of the largest taxpayer by about one-sixth.
- State-shared revenue, traditionally the second largest revenue source, was again slightly reduced by the State of Michigan this fiscal year.
- In order to strengthen the fund balance, the decision was made to keep the prior year's \$235,211 received from the land sales in the General Fund instead of designating these funds to the Municipal Streets Fund.
- There were no sales of additional industrial land during the fiscal year, although some earlier vacated business sites have now been refilled.
- Construction activity diminished somewhat due to the regional housing slump, but a successful brownfield cleanup program is allowing the start of a substantial condominium project and a substantial commercial project.
- Total unrestricted net assets related to the City's governmental activities increased by approximately \$1,836,000 due to a combination of increases in the revenue streams and also tightening up on the expenditures.
- Because of the possibility of the loss of the largest taxpayer, the municipality worked very deliberately to increase the undesignated fund balance for the total General Fund group from \$1,236,754 as of June 30, 2006 to \$2,548,619 as of June 30, 2007 in large part by restraining expenditures and partly by distribution of some funds back to the General Fund. The City will again restrain expenditures in the subsequent fiscal year in order to budget for a new undesignated balance that is projected to grow by 15 percent to 20 percent by the end of the fiscal year.

City of Saline, Michigan

Management's Discussion and Analysis (Continued)

- The City's largest taxpayer, Automotive Components Holdings LLC (ACH), has filed an appeal on its 2006 and 2007 personal property taxes which, if it fully prevailed, could decrease the General Fund by about \$210,000 annually and could impact the Tax Increment Finance Authority (TIFA) component unit by about \$160,000 annually. To guard against this, the City has budgeted a contingency amount for the two years of \$300,000 in the General Fund budget and \$240,000 in the TIFA budget. It is reasonable to believe that ACH will not likely win this appeal, even to the approximately 70 percent level for which the City has set aside contingency funds, because arbitrarily changing the State Tax Commission multipliers and the entire approach for just one industry would call the whole system into question. Moreover, the State's new Michigan business tax, which takes effect January 1, 2008, is expected to provide manufacturers such as ACH significant relief through state tax credits for over half of their personal property tax. Thus, the contingency funds set aside are thought to be more than sufficient.
- Ford Motor Company has said that the ACH plant in Saline will be closed by the end of 2008 if it cannot be sold and is currently bringing production lines to Saline from two of its other Michigan plants in order to make the Saline site more desirable. If the plant is closed, Ford has indicated that the 188 acres on the City's main thoroughfare will be promptly sold for redevelopment. The impact, starting 2009 or 2010 and for several years during redevelopment, could be a loss of nearly \$300,000 annually to the General Fund and about \$200,000 annually to TIFA. If sold, the City still anticipates a moderate negative tax impact because taxable valuation would likely still go down somewhat.
- The City still has 1.4067 mills of unused excess levy capacity available by vote of the City Council, which could provide about \$600,000 additional annually.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. This longer-term view uses the accrual basis of accounting, so that it can provide an approximate measure of the cost of providing services during the current year and estimate how closely the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements by providing information about the City's most significant funds. The fiduciary fund statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

City of Saline, Michigan

Management's Discussion and Analysis (Continued)

The City as a Whole

The following table shows, in a condensed format, the net assets as of the current date and compared to the prior year (in thousands):

TABLE I

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Assets						
Current assets	\$ 7,351	\$ 12,823	\$ 2,963	\$ 3,670	\$ 10,314	\$ 16,493
Noncurrent assets	<u>35,852</u>	<u>30,380</u>	<u>34,569</u>	<u>34,562</u>	<u>70,421</u>	<u>64,942</u>
Total assets	43,203	43,203	37,532	38,232	80,735	81,435
Liabilities						
Current liabilities	2,817	2,575	1,107	1,364	3,924	3,939
Long-term liabilities	<u>17,118</u>	<u>18,382</u>	<u>11,885</u>	<u>12,601</u>	<u>29,003</u>	<u>30,983</u>
Total liabilities	<u>19,935</u>	<u>20,957</u>	<u>12,992</u>	<u>13,965</u>	<u>32,927</u>	<u>34,922</u>
Net Assets						
Invested in capital assets - Net of related debt	17,286	16,605	20,233	19,823	37,519	36,428
Restricted	3,130	4,625	1,740	1,463	4,870	6,088
Unrestricted	<u>2,852</u>	<u>1,016</u>	<u>2,567</u>	<u>2,981</u>	<u>5,419</u>	<u>3,997</u>
Total net assets	<u>\$ 23,268</u>	<u>\$ 22,246</u>	<u>\$ 24,540</u>	<u>\$ 24,267</u>	<u>\$ 47,808</u>	<u>\$ 46,513</u>

As we look at the governmental activities separately from the business-type activities, we note that unrestricted net assets - the part of net assets that can be used to finance day-to-day operations - increased by approximately \$1,836,000. The current very healthy level of unrestricted net assets for all of our governmental activities stands at approximately \$2,852,000, or about 27.4 percent of the total governmental expenditures for the primary governmental activities (not including the business-type activities or the component units). This strengthening of the unrestricted net assets was deliberate. The increase is intended to continue into the next budget year, to sufficiently prepare for the possible loss of revenues from the City's largest taxpayer starting in 2009 or 2010. If the ACH assets are sold to a company that will continue the operations of the City's largest taxpayer, then the large accumulation of unrestricted net assets would simply mean that the City would be in a very solid financial position.

City of Saline, Michigan

Management's Discussion and Analysis (Continued)

The following table shows the changes of the net assets during the year ended June 30, 2007 as compared to the prior year (in thousands):

TABLE 2

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Revenue						
Program revenue:						
Charges for services	\$ 2,359	\$ 2,385	\$ -	\$ -	\$ 2,359	\$ 2,385
Operating grants and contributions	557	565	-	-	557	565
Capital grants and contributions	2,569	1,119	352	484	2,921	1,603
General revenue:						
Property taxes	6,895	6,537	-	-	6,895	6,537
State-shared revenue	850	872	-	-	850	872
Unrestricted investment earnings	546	522	251	96	797	618
Gain from the disposal of capital assets	13	231	-	-	13	231
Miscellaneous	23	55	-	-	23	55
Special item - Road upgrade project	(742)	-	-	-	(742)	-
Water and sewer	-	-	3,161	2,992	3,161	2,992
Total revenue	13,070	12,286	3,764	3,572	16,834	15,858
Program Expenses						
General government	2,662	2,722	-	-	2,662	2,722
Public safety	2,467	2,354	-	-	2,467	2,354
Public works	1,561	1,105	-	-	1,561	1,105
Cemetery	79	60	-	-	79	60
Recreation and culture	2,046	1,924	-	-	2,046	1,924
Legislative	59	52	-	-	59	52
Building department	267	189	-	-	267	189
Highways and streets	2,015	1,693	-	-	2,015	1,693
Interest on long-term debt	727	784	-	-	727	784
Unallocated	164	142	-	-	164	142
Water and sewer	-	-	3,491	3,484	3,491	3,484
Total program expenses	12,047	11,025	3,491	3,484	15,538	14,509
Change in Net Assets	\$ 1,023	\$ 1,261	\$ 273	\$ 88	\$ 1,296	\$ 1,349

Two major sources that continue to keep revenues high are the strong returns on investments and the strong tax receipts from property taxes. There has been an increase in the operating portion of the City tax levy (including fire protection, but beyond the levy for refuse and voted debt) starting from 13.4680 mills in the prior fiscal year to the 13.8538 mills for the year ended June 30, 2007 and to 13.9632 mills for the subsequent fiscal year. The total of 15.5300 mills for the City tax rate has been maintained since it was increased in June 2004. The City's operating portion has now increased due to smaller shares going to refuse and voted debt. Unrestricted investment earnings remained very strong this year, partly due to having more funds on hand to invest. Most other revenue items remained stable, and no City-owned industrial land was sold this year. General government expenditures went down mainly due to spending restraints. A significant factor in public works expenditures was the higher overhead costs for a new larger facility while also keeping the old facility open for a final year. Costs for long-term debt are expected to decrease over time due to some bond maturities plus lower payments on refunded bonds.

City of Saline, Michigan

Management's Discussion and Analysis (Continued)

Governmental Activities

The City's total governmental revenues remained flat this fiscal year, despite continued shortages in state-shared revenues and no land sales receipts. This was primarily due to the continuing increase in property tax receipts and strong interest income, which offset some of the negative factors.

The City's governmental expenses decreased by about \$239,000. The major reason for this change was the concerted effort at fiscal restraint. This resulted in an over \$1 million gain in net assets by the end of the fiscal year.

Business-type Activities

The City's business-type activities consist of the Water and Sewer Fund. The City provides drinking water to City residents from its municipal water system from underground wells. The City provides sewage treatment through a City-owned and operated sewage treatment plant. In 2006-2007, the City's water and sewer revenues continued to steadily increase. The activities incurred an overall gain for the year (approximately \$279,000), primarily from the overall generated positive cash from operations.

The municipality has ensured adequate funding for its business-type water and sewer activities by increasing the utility rates to cover all projects, operations, and maintenance of the utility systems. In June 2007, after a water and sewer system revenue study, the City Council adopted new water and sewer rates through 2011 in order to ensure favorable cash coverage ratios on the debt service for the upcoming \$1,700,000 bond for two years of improvements. Construction of a new water treatment plant has improved the aesthetics of the drinking water since its substantial completion in spring 2005.

The City's Funds

Our analysis of the City's major funds begins with the governmental funds balance sheet, following the government-wide financial statements that immediately follow this discussion. The fund financial statements provide detail information about the most significant funds, not the City as a whole. The City Council creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages. The City's major funds for 2007 include the General Fund, the Major Streets Fund, the Local Streets Fund, the Municipal Streets Fund, the DPW Construction Bond Fund, and the Saline Recreation Complex Fund.

The General Fund pays for most of the City's governmental services. The most significant are general government, public safety, and public works, which incurred expenses of approximately \$6,393,000 in 2007. These services are partially supported from year to year by a special refuse millage and a fire special assessment which are recorded in the General Fund. During the 2006-2007 fiscal year, the fire and refuse accounted for about 2.0040 mills out of the 15.5300 mills total City tax levy.

City of Saline, Michigan

Management's Discussion and Analysis (Continued)

The remaining departments are funded by other various general revenue sources of the General Fund. Most of the expenses for governmental activities only increased incrementally.

General Fund Budgetary Highlights

The largest revenue side changes over the prior year were strongly increased tax revenues, a continuing drop in state revenues, a large increase in interest earnings as funds have accumulated, and higher than expected prior end of year undesignated fund balance. The largest expenditure changes over the prior year were mainly the higher public works costs for larger facilities and the higher debt service costs for the new public works facilities.

Over the course of the year, the City has amended the budget to take into account events during the year. The most significant changes to budgeted items were a reduction in property taxes (due to reduced real property valuation settlements with the City's largest taxpayer), an increase in the expected interest earnings, and an increase in transfers to other funds in order to ensure adequate funds in the DPW Construction Fund. It turns out that the property tax revenues exceeded expectations because they did not drop, the interest earnings were much better than expected, and the \$320,000 was not needed by the DPW Construction Fund. In addition, some belt-tightening measures resulted in lower than budgeted expenditures for general government, public safety, public works, recreation, legislative, engineering, and capital outlay.

The amended budget had conservatively anticipated a moderate decline in fund balance. But the actual fund balance at June 30, 2007 turned out to be about \$1 million higher than the prior year, now well exceeding the target 15 percent of expenditures.

The municipality had been tightening budgets because tax revenue gains were being moderated by reductions in personal property tax valuation as well as by Proposal A. Over the past few years, the taxable valuation of the largest taxpayer dropped from about one-seventh of the tax base to about one-eleventh of the tax base and now might possibly close mainly due to loss of market share by Ford Motor Company. During the past few years, the City had increased its local tax rate to 15.5300 mills. It was decided to stay at this rate again for the next fiscal year, thereby projecting growing revenues for the General Fund. At this tax rate, the undesignated fund balance in the General Fund is projected to increase to over 31 percent of budgeted expenditures by the end of the next fiscal year.

City of Saline, Michigan

Management's Discussion and Analysis (Continued)

Capital Asset and Debt Administration

At the end of the 2007 fiscal year, the City had about \$68 million invested in a broad range of capital assets, including land, buildings, streets, police and fire equipment, and water and sewer lines. In addition, the City was planning to budget approximately \$4 million in additional infrastructure improvements (the majority to come from remaining bond proceeds on hand) over the subsequent two years. The scope of the water system improvements during the past few years is a major factor in the continued improvement of the municipality's ISO insurance rating during the past few years, from a 6 to a 5, thereby lowering some insurance costs within the municipal boundaries.

Over the next two years, the street construction is expected to use the \$925,780 remaining from the 2004 streets bond plus about \$500,000 of ACT 51 funds. During this time, a limited tax general obligation bond is to be issued for \$1,700,000 of water and sewer improvements. The credit rating of A+ has recently been reaffirmed by Standard & Poor's on the City's existing bonds. In addition, it is anticipated that there will be about \$500,000 of miscellaneous capital investments of various types during these two years, with funds coming from various sources.

The City now has debt of slightly over one-half of its legal limit. The City's tax base growth has gradually been changing to a larger proportion of residential, but a mix of uses still exists. The 2007 tax base composition as of the April 2007 apportionment report by the equalization department of Washtenaw County shows that 41.08 percent of the taxable valuation is still nonresidential.

The last table is a summary of debt, various debt ratios, and the legal debt margin. During the next couple of years, only the \$1.7 million water and sewer bond is to be issued, for which the utility rates have already been moderately increased through 2011 to ensure sufficient utility revenues to cover the debt service.

City of Saline, Michigan

Management's Discussion and Analysis (Continued)

DEBT STATEMENT (as of 6/30/07)	Outstanding	Total
02/01/01 Streets \$3 MM share UTGO Bond (45% TIFA 23% LDFAI 10% LDFA2)	\$2,456,126	
02/01/01 Sewer \$1.54 MM share UTGO Bond (100% self-supporting)	1,260,811	
02/01/01 Water and Sewer \$1.5 MM share UTGO Bond (44% TIFA 22% LDFAI 34% LDFA2)	1,228,063	
09/25/03 DWRF III Water, LTGO Bonds, Bond Bank (utility fees 100% self-supporting)	6,300,000	
04/01/04 Streets \$4.5 MM share UTGO Bond	4,268,240	
04/01/04 Water and Sewer 0.16 MM share UTGO bonds (100% self-supporting)	151,760	
10/01/05 DPW/Recreation complex \$6 MM LTGO Capital Bonds	5,780,000	\$21,445,000
03/26/92 Water and Sewer Revenue Refunding Bonds, Bond Bank (100% LDFA and TIFA)	110,000	
06/17/93 Water and Sewer Revenue bonds, Bond Bank	105,000	
07/01/98 Water and Sewer Revenue Bonds (73.53% LDFA #2)	1,815,000	\$2,030,000
08/01/98 Michigan Transportation Fund, LTGO (100% by LDFA #2)	660,000	\$660,000
04/01/04 Recreational Facilities \$2.375 MM Refunding, LTGO Authority Bond	1,265,000	
02/01/93 Hertler LTGO Authority Bond (100% LDFAI)	150,000	
04/01/00 City Hall/Police Station \$4 MM LTGO Authority Bond	525,000	
08/01/05 City Hall/Police Station \$2.815 MM Refunding, LTGO Authority bond	2,765,000	\$4,705,000
TOTAL DIRECT DEBT		\$28,840,000
Less: Michigan Transportation Fund Bonds/Notes	(\$660,000)	
Revenue Bonds	(2,030,000)	(2,690,000)
NET DIRECT DEBT		\$26,150,000
07/02/98 DWRF I Water, LTGO (County Issued Bonds, 100% utility fee self-supporting)	900,000	
06/24/99 DWRF II Water, LTGO (County Issued Bonds, 100% utility fee self-supporting)	827,280	
TOTAL INDIRECT DEBT		\$1,727,280
NET DIRECT AND INDIRECT DEBT		\$27,877,280
DEBT RATIOS (Net Direct and Indirect Debt)		
Per Capita (9,200 current estimated from 8,034 in 2000 Census)		\$3,030.14
Ratio to 2007 Taxable Value (\$478,282,265) Including Special Acts (IFT and DNR) at Half		5.83%
Ratio to 2007 State Equalized Valuation (\$539,889,350) Including IFTs at Half		5.16%
Ratio to 2007 Estimated True Cash Value (\$1,079,778,700) Including IFTs at Half		2.58%

ADDITIONAL FINANCING (Not Including Non-Bonded Such as Mortgage)	Outstanding	Total
11/2/04 Recreation Complex Installment Purchase Dectron Unit	\$295,286	\$295,286

LEGAL DEBT MARGIN (including above Bonds, per Michigan P.A. 279 of 1909 as amended)		
2007 State Equalized Valuation - Excluding Special Acts (IFT and DNR) values		\$514,507,000
Plus Half of 2007 Special Acts State Equalized Valuation		25,382,350
Total 2007 Valuation		\$539,889,350
Debt Limit - 10% of State Equalized Valuation		\$51,450,700
Amount of Direct Debt Outstanding		\$28,840,000
Less: Transportation Fund Bonds	(\$660,000)	
Revenue Bonds	(2,030,000)	(2,690,000)
Total Subject to Debt Limit		26,150,000
Additional Debt Which Could Be Legally Incurred		\$25,300,700

DEBT HISTORY AND FUTURE FINANCING		
The City has no record of default and anticipates issuing the following tax exempt bonds:		
2007 Water/Sewer Bonds - Market		<u>\$1,700,000</u>
Total Calendar Years 2007 and 2008		<u>\$1,700,000</u>

City of Saline, Michigan

Management's Discussion and Analysis (Continued)

Economic Factors and Next Year's Budgets and Rates

It will be necessary for the City to continue to monitor its budgets because of several revenue challenges. These are the gradual economic decline which has slowed residential construction, the possible closing of the ACH plant, the continuing impact of Proposal A, and weak state government finances. The statewide Tax Reform Act limits growth in taxable value on any individual property, and the State Tax Commission has established a 3.7 percent inflation rate for 2007 taxes (2007-2008 fiscal year). Because some properties increase in value by less than inflation, the mathematical result of this is that the total taxable value for the City will grow by less than inflation, before considering net new property additions.

The City's budget for the 2007-2008 fiscal year includes maintaining the past few years' increases in property tax rates to ensure building a significant fund balance in the General Fund. This is being accomplished partly due to the strong growth in our tax base and partly due to fiscal restraint.

Contacting the City's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the clerk's office at (734) 429-4907, extension 209.

City of Saline, Michigan

Statement of Net Assets June 30, 2007

	Primary Government			
	Business-type			
	Governmental	Activities		Component
	Activities	(Water and Sewer)	Total	Units
Assets				
Cash and cash equivalents (Note 3)	\$ 6,553,275	\$ 2,078,546	\$ 8,631,821	\$ 1,193,568
Receivables - Net (Note 4)	160,621	710,709	871,330	-
Internal balances	(29)	29	-	-
Due from other governmental units	337,729	-	337,729	-
Due from component units (Note 6)	299,438	157,961	457,399	-
Due from primary government (Note 6)	-	-	-	130,843
Inventories	-	15,365	15,365	-
Restricted assets (Note 9)	-	1,739,496	1,739,496	-
Investment in joint venture - Saline area fire department (Note 14)	550,640	-	550,640	-
Capital assets (Note 5):				
Nondepreciated	1,598,148	588,484	2,186,632	40,749
Depreciated - Net	33,702,864	32,241,539	65,944,403	-
Total assets	43,202,686	37,532,129	80,734,815	1,365,160
Liabilities				
Accounts payable	478,091	123,929	602,020	9,958
Due to primary government (Note 6)	-	-	-	457,399
Due to other governmental units	-	-	-	136,297
Due to component units (Note 6)	120,022	10,821	130,843	-
Accrued and other liabilities	341,826	111,319	453,145	-
Noncurrent liabilities (Note 8):				
Due within one year	1,876,908	861,149	2,738,057	75,000
Due in more than one year	17,117,613	11,884,823	29,002,436	75,000
Total liabilities	19,934,460	12,992,041	32,926,501	753,654
Net Assets				
Invested in capital assets - Net of related debt	17,286,350	20,233,295	37,519,645	40,749
Restricted:				
Streets and highways	2,283,240	-	2,283,240	-
Solid waste and recycling	82,045	-	82,045	-
Debt service	-	258,000	258,000	-
Capital projects	14,107	1,481,496	1,495,603	-
Cemetery perpetual care	750,065	-	750,065	-
Unrestricted (Note 17)	2,852,419	2,567,297	5,419,716	570,757
Total net assets	\$ 23,268,226	\$ 24,540,088	\$ 47,808,314	\$ 611,506

City of Saline, Michigan

	Expenses	Program Revenues		
		Charges for	Operating	Capital Grants
		Services	Grants and	and
			Contributions	Contributions
Functions/Programs - Primary government				
Governmental activities:				
General government	\$ 2,661,513	\$ 972,101	\$ 17,500	\$ -
Public safety	2,467,287	183,033	-	-
Public works	1,560,582	-	-	-
Cemetery	79,628	32,427	-	-
Recreation and culture	2,045,512	1,051,708	46,635	150,000
Legislative	59,082	-	-	-
Building department	267,144	120,079	-	-
Highways and streets	2,014,732	-	492,749	1,658,228
Interest on long-term debt	727,626	-	-	760,876
Unallocated depreciation	163,965	-	-	-
Total governmental activities	12,047,071	2,359,348	556,884	2,569,104
Business-type activities - Water and sewer	3,490,775	3,161,153	-	351,527
Total primary government	<u>\$ 15,537,846</u>	<u>\$ 5,520,501</u>	<u>\$ 556,884</u>	<u>\$ 2,920,631</u>
Component units:				
Economic Development Corporation	\$ 152,705	\$ 7,347	\$ 135,000	\$ -
Tax Increment Finance Authority	1,278,720	-	-	-
Local Development Finance Authorities	606,922	-	-	-
Total component units	<u>\$ 2,038,347</u>	<u>\$ 7,347</u>	<u>\$ 135,000</u>	<u>\$ -</u>
General revenues:				
Property taxes				
State-shared revenues				
Unrestricted investment earnings				
Gain from the sale of capital assets				
Miscellaneous				
Special item - Road upgrade project (Note 5)				
Total general revenues and special item				
Change in Net Assets				
Net Assets - Beginning of year				
Net Assets - End of year				

Statement of Activities
Year Ended June 30, 2007

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
\$ (1,671,912)	\$ -	\$ (1,671,912)	\$ -
(2,284,254)	-	(2,284,254)	-
(1,560,582)	-	(1,560,582)	-
(47,201)	-	(47,201)	-
(797,169)	-	(797,169)	-
(59,082)	-	(59,082)	-
(147,065)	-	(147,065)	-
136,245	-	136,245	-
33,250	-	33,250	-
(163,965)	-	(163,965)	-
(6,561,735)	-	(6,561,735)	-
-	21,905	21,905	-
(6,561,735)	21,905	(6,539,830)	-
-	-	-	(10,358)
-	-	-	(1,278,720)
-	-	-	(606,922)
-	-	-	(1,896,000)
6,894,488	-	6,894,488	1,957,424
849,848	-	849,848	-
545,931	251,621	797,552	87,267
13,493	-	13,493	-
22,822	-	22,822	-
(742,126)	-	(742,126)	-
7,584,456	251,621	7,836,077	2,044,691
1,022,721	273,526	1,296,247	148,691
22,245,505	24,266,562	46,512,067	462,815
\$ 23,268,226	\$ 24,540,088	\$ 47,808,314	\$ 611,506

City of Saline, Michigan

	Major Funds					
	General Fund*	Special Revenue - Major Streets	Special Revenue - Local Streets	Special Revenue - Municipal Streets	Special Revenue - Saline Recreation Complex	Capital Projects - DPW Construction Bond
Assets						
Cash and cash equivalents (Note 3)	\$ 3,546,106	\$ 631,760	\$ -	\$ 1,248,691	\$ 277,157	\$ 90,877
Receivables - Net (Note 4)	149,762	179	5,444	-	2,155	-
Due from other governmental units	115,951	60,258	20,647	-	-	-
Due from other funds (Note 6)	16,263	24,000	313,912	202,602	185,000	-
Due from component units (Note 6)	135,740	147,919	-	15,779	-	-
Total assets	\$ 3,963,822	\$ 864,116	\$ 340,003	\$ 1,467,072	\$ 464,312	\$ 90,877
Liabilities						
Accounts payable	\$ 391,094	\$ 7,660	\$ 28,997	\$ -	\$ 43,540	\$ 6,800
Accrued and other liabilities	177,300	6,627	2,143	-	22,984	-
Due to component units (Note 6)	120,000	22	-	-	-	-
Due to other funds (Note 6)	401,711	4,694	-	337,808	-	-
Total liabilities	1,090,105	19,003	31,140	337,808	66,524	6,800
Fund Balances						
Reserved:						
Solid waste and recycling	82,045	-	-	-	-	-
Capital projects	-	-	-	1,129,264	-	84,077
Cemetery perpetual care	-	-	-	-	-	-
Unreserved, reported in:						
General Fund:						
Designated (Note 13)	243,053	-	-	-	-	-
Undesignated	2,548,619	-	-	-	-	-
Special Revenue Funds	-	845,113	308,863	-	397,788	-
Total fund balances	2,873,717	845,113	308,863	1,129,264	397,788	84,077
Total liabilities and fund balances	\$ 3,963,822	\$ 864,116	\$ 340,003	\$ 1,467,072	\$ 464,312	\$ 90,877

* See component information of the total General Fund (composed of City's General Fund, Fire Special Assessment Fund, and Solid Waste Fund) in the other supplemental information.

**Governmental Funds
Balance Sheet
June 30, 2007**

<u>Nonmajor Funds</u>		
<u>Capital Projects - Building Authority</u>	<u>Permanent Fund - Cemetery Perpetual Care</u>	<u>Total Governmental Funds</u>
\$ -	\$ 758,684	\$ 6,553,275
-	3,081	160,621
-	-	196,856
14,107	-	755,884
-	-	299,438
<u>\$ 14,107</u>	<u>\$ 761,765</u>	<u>\$ 7,966,074</u>
\$ -	\$ -	\$ 478,091
-	-	209,054
-	-	120,022
-	11,700	755,913
-	11,700	1,563,080
-	-	82,045
14,107	-	1,227,448
-	750,065	750,065
-	-	243,053
-	-	2,548,619
-	-	1,551,764
14,107	750,065	6,402,994
<u>\$ 14,107</u>	<u>\$ 761,765</u>	<u>\$ 7,966,074</u>

City of Saline, Michigan

Governmental Funds Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets June 30, 2007

Total Fund Balances of Governmental Funds	\$ 6,402,994
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds	35,301,012
Revenue sharing due from the State not received within 60 days of year end is not available currently and is not recorded in the funds	140,873
Investment in joint venture is not a financial resource and is not reported in the funds	550,640
Long-term liabilities, including compensated absences, are not due and payable in the current period and are not reported in the funds	(18,994,521)
Interest amounts on long-term liabilities are not payable until due in the funds	<u>(132,772)</u>
Net Assets of Governmental Activities	<u>\$ 23,268,226</u>

City of Saline, Michigan

	Major Funds					
	General Fund*	Special Revenue - Major Streets	Special Revenue - Local Streets	Special Revenue - Municipal Streets	Special Revenue - Saline Recreation Complex	Capital Projects - DPW Construction Bond
Revenue						
Property taxes	\$ 6,894,488	\$ -	\$ -	\$ -	\$ -	\$ -
Licenses and permits	190,948	-	-	-	-	-
Federal sources	17,500	-	-	-	-	-
State sources	815,203	413,477	125,743	-	-	-
Charges for services	788,014	-	-	-	971,709	-
Fines and court costs	103,192	-	-	-	-	-
Interest earnings	336,945	39,537	-	78,298	38,754	43,941
Special assessments	1,369	-	-	-	-	-
Other	438,216	-	5,112	-	163,683	-
Total revenue	9,585,875	453,014	130,855	78,298	1,174,146	43,941
Expenditures						
Current:						
General government	2,787,819	20,000	10,000	-	38,935	-
Public safety	2,342,264	-	-	-	-	-
Public works	1,262,736	-	-	-	-	-
Cemetery	55,310	-	-	-	-	-
Recreation and culture	470,123	-	-	-	1,121,956	-
Legislative	59,082	-	-	-	-	-
Building department	236,221	-	-	-	-	-
Engineering department	187,712	-	-	-	-	-
Highways and streets	-	835,794	1,026,038	21,000	-	-
Other	94,854	-	-	-	-	-
Capital outlay	269,165	-	-	-	1,469,810	3,674,525
Debt service	336,140	-	-	206,616	334,976	-
Total expenditures	8,101,426	855,794	1,036,038	227,616	2,965,677	3,674,525
Excess of Revenue Over (Under) Expenditures	1,484,449	(402,780)	(905,183)	(149,318)	(1,791,531)	(3,630,584)
Other Financing Sources (Uses)						
Transfers in (Note 6)	11,700	440,000	1,010,000	202,602	200,000	-
Transfers out (Note 6)	(702,602)	-	-	(1,450,000)	-	-
Total other financing sources (uses)	(690,902)	440,000	1,010,000	(1,247,398)	200,000	-
Net Change in Fund Balances	793,547	37,220	104,817	(1,396,716)	(1,591,531)	(3,630,584)
Fund Balances - Beginning of year	2,080,170	807,893	204,046	2,525,980	1,989,319	3,714,661
Fund Balances - End of year	\$ 2,873,717	\$ 845,113	\$ 308,863	\$ 1,129,264	\$ 397,788	\$ 84,077

* See component information of the total General Fund (composed of City's General Fund, Fire Special Assessment Fund, and Solid Waste Fund) in the other supplemental information.

Governmental Funds
Statement of Revenue, Expenditures, and
Changes in Fund Balances
Year Ended June 30, 2007

<u>Nonmajor Funds</u>		
Capital Projects - Building Authority	Permanent Fund - Cemetery Perpetual Care	Total Governmental Funds
\$ -	\$ -	\$ 6,894,488
-	-	190,948
-	-	17,500
-	-	1,354,423
-	32,427	1,792,150
-	-	103,192
9,305	38,688	585,468
-	-	1,369
-	-	607,011
9,305	71,115	11,546,549
400	-	2,857,154
-	-	2,342,264
-	-	1,262,736
-	-	55,310
-	-	1,592,079
-	-	59,082
-	-	236,221
-	-	187,712
-	-	1,882,832
-	-	94,854
-	-	5,413,500
325,313	-	1,203,045
325,713	-	17,186,789
(316,408)	71,115	(5,640,240)
300,000	-	2,164,302
-	(11,700)	(2,164,302)
300,000	(11,700)	-
(16,408)	59,415	(5,640,240)
30,515	690,650	12,043,234
\$ 14,107	\$ 750,065	\$ 6,402,994

City of Saline, Michigan

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2007

Net Change in Fund Balances - Total Governmental Funds **\$ (5,640,240)**

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:

Capital outlay	\$ 8,485,197	
Net book value of assets disposed	(742,126)	
Depreciation expense	<u>(2,268,108)</u>	5,474,963

Revenue-sharing is recorded in the statement of activities when the revenue is earned; it is not reported in the funds until collected or collectible within 60 days of year end (11,826)

Accrued interest payable is recorded when due in governmental funds 29,980

Change in joint venture equity interest is not a financial resource and is not reported in the governmental funds (3,219)

Repayment of bond principal and other long-term debt is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt) 1,206,315

Changes in compensated absences are recorded when earned in the statement of activities (33,252)

Change in Net Assets of Governmental Activities **\$ 1,022,721**

City of Saline, Michigan

Proprietary Fund - Enterprise Fund - Water and Sewer Fund Statement of Net Assets June 30, 2007

Current Assets

Cash and cash equivalents (Note 3)	\$ 2,078,546
Customer receivables (Note 4)	710,709
Due from component units (Note 6)	157,961
Due from other funds (Note 6)	29
Inventories	<u>15,365</u>
Total current assets	2,962,610

Noncurrent Assets

Restricted assets (Note 9)	1,739,496
Capital assets (Note 5):	
Nondepreciated	588,484
Depreciated - Net	<u>32,241,539</u>
Total noncurrent assets	<u>34,569,519</u>
Total assets	37,532,129

Current Liabilities

Accounts payable	123,929
Accrued and other liabilities	111,319
Due to component units (Note 6)	10,821
Current portion of long-term debt (Note 8)	<u>861,149</u>
Total current liabilities	1,107,218

Noncurrent Liabilities - Long-term debt - Net of current portion (Note 8)

11,884,823

Total liabilities	<u>12,992,041</u>
-------------------	-------------------

Net Assets

Investment in capital assets - Net of related debt	20,233,295
Restricted:	
Debt service	258,000
Wastewater treatment plant replacement	1,481,496
Unrestricted (Note 17)	<u>2,567,297</u>
Total net assets	<u>\$ 24,540,088</u>

City of Saline, Michigan

Proprietary Fund - Enterprise Fund - Water and Sewer Fund Statement of Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2007

Operating Revenue

Sale of water	\$ 1,326,643
Sewage disposal charges	1,669,789
Other charges for services	<u>164,721</u>
Total operating revenue	3,161,153

Operating Expenses

Cost of water produced/purchased	693,276
Cost of sewage treatment	1,144,643
Operation and maintenance	97,217
General and administrative	240,000
Depreciation	<u>884,921</u>
Total operating expenses	<u>3,060,057</u>

Operating Income

101,096

Nonoperating Revenue (Expense)

Investment income	251,621
Interest expense	<u>(430,718)</u>
Total nonoperating expense	<u>(179,097)</u>

Loss - Before capital contributions

(78,001)

Capital Contributions - Contributions from LDFA and TIFA

351,527

Change in Net Assets

273,526

Net Assets - Beginning of year

24,266,562

Net Assets - End of year

\$ 24,540,088

City of Saline, Michigan

Proprietary Fund - Enterprise Fund - Water and Sewer Fund Statement of Cash Flows Year Ended June 30, 2007

Cash Flows from Operating Activities

Receipts from customers	\$ 2,945,059
Payments to suppliers	(2,010,640)
Payments to employees	(596,402)
Payments to General Fund for administrative costs	(240,000)
Other receipts	<u>164,721</u>

Net cash provided by operating activities 262,738

Cash Flows from Capital and Related Financing Activities

Contributions from financing authorities	368,152
Principal, interest, and other paid on capital debt	(1,110,367)
Acquisition of capital assets	<u>(238,631)</u>

Net cash used in capital and related financing activities (980,846)

Cash Flows from Investing Activities - Interest earnings 251,621

Net Decrease in Cash and Cash Equivalents (466,487)

Cash and Cash Equivalents - Beginning of year 4,284,529

Cash and Cash Equivalents - End of year \$ 3,818,042

Classification of Cash and Cash Equivalents

Cash and cash equivalents	\$ 2,078,546
Restricted cash and cash equivalents	<u>1,739,496</u>

Total cash and cash equivalents \$ 3,818,042

Reconciliation of Operating Income to Net Cash from Operating Activities

Operating income	\$ 101,096
Adjustments to reconcile operating income to net cash from operating activities:	
Depreciation	884,921
Changes in assets and liabilities:	
Receivables	(51,373)
Accounts payable	(670,614)
Accrued and other liabilities	<u>(1,292)</u>

Net cash provided by operating activities \$ 262,738

Noncash Transactions - During the year ended June 30, 2007, there were no noncash transactions.

City of Saline, Michigan

Fiduciary Fund Statement of Assets and Liabilities June 30, 2007

	<u>Agency Fund</u>
Assets - Cash and cash equivalents (Note 3)	<u>\$ 222,355</u>
Liabilities	
Accounts payable	\$ 26,182
Accrued and other liabilities	122,200
Due to other governmental units	<u>73,973</u>
Total liabilities	<u>\$ 222,355</u>

City of Saline, Michigan

Component Units Statement of Net Assets June 30, 2007

	Economic Development Corporation	Tax Increment Finance Authority	Local Development Finance Authorities	Total
Assets				
Cash and cash equivalents (Note 3)	\$ 64,107	\$ 599,852	\$ 529,609	\$ 1,193,568
Due from primary government (Note 6)	-	267	130,576	130,843
Capital assets (Note 5)	-	-	40,749	40,749
Total assets	64,107	600,119	700,934	1,365,160
Liabilities				
Accounts payable	4,979	-	4,979	9,958
Due to primary government (Note 6)	-	123,340	334,059	457,399
Due to other governmental units	-	136,297	-	136,297
Noncurrent liabilities (Note 8):				
Due within one year	-	-	75,000	75,000
Due in more than one year	-	-	75,000	75,000
Total liabilities	4,979	259,637	489,038	753,654
Net Assets				
Investment in capital assets - Net of related debt	-	-	40,749	40,749
Unrestricted	59,128	340,482	171,147	570,757
Total net assets	<u>\$ 59,128</u>	<u>\$ 340,482</u>	<u>\$ 211,896</u>	<u>\$ 611,506</u>

City of Saline, Michigan

		Program Revenues	
		Charges for	Operating
	Expenses	Services	Grants/ Contributions
Economic Development Corporation	\$ 152,705	\$ 7,347	\$ 135,000
Tax Increment Finance Authority	1,278,720	-	-
Local Development Finance Authorities	606,922	-	-
Total governmental activities	\$ 2,038,347	\$ 7,347	\$ 135,000

General revenues:

Property taxes

Interest

Total general revenues

Change in Net Assets

Net Assets - Beginning of year

Net Assets - End of year

**Component Units
Statement of Activities
Year Ended June 30, 2007**

Net (Expense) Revenue and Changes in Net Assets			
Economic Development Corporation	Tax Increment Finance Authority	Local Development Finance Authorities	Total
\$ (10,358)	\$ -	\$ -	\$ (10,358)
-	(1,278,720)	-	(1,278,720)
-	-	(606,922)	(606,922)
(10,358)	(1,278,720)	(606,922)	(1,896,000)
-	1,187,907	769,517	1,957,424
1,745	50,065	35,457	87,267
1,745	1,237,972	804,974	2,044,691
(8,613)	(40,748)	198,052	148,691
67,741	381,230	13,844	462,815
\$ 59,128	\$ 340,482	\$ 211,896	\$ 611,506

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the City of Saline, Michigan (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City of Saline, Michigan:

Reporting Entity

The City of Saline, Michigan is governed by an elected mayor and six-member council. As required by accounting principles generally accepted in the United States of America, these financial statements present the City of Saline, Michigan and its component units. The individual component units discussed below are included in the City's reporting entity because of the significance of their operational or financial relationships with the City.

The Building Authority is a City-created and directed authority whose sole business activity is acquiring and leasing property to the City. The Building Authority was created during the fiscal year ended June 30, 1990. Building Authority operations consist of the issuance and repayment of debt and the construction of facilities. Although it is legally separate from the City, it is reported as if it were part of the primary government because its primary purpose is to finance and construct the City's public buildings. The assets of the Building Authority held for payment of construction costs associated with the new municipal building and outstanding bond issues are reported in the Capital Projects Fund and Saline Recreation Complex Special Revenue Fund, respectively, along with the related liability associated with the bond issue.

The following component units are reported within the component units column in the financial statements. They are reported in a separate column to emphasize that they are legally separate from the City. There are not separately issued financial statements for each component unit; however, more detailed information on each component unit is disclosed in the other supplemental information section of these financial statements.

- a. The Local Development Finance Authorities (LDFA) and the Tax Increment Finance Authority (TIFA) (collectively, the "Authorities") were created to promote economic growth and business development within the community. The Authorities' governing bodies each consist of 11 individuals who are selected by the City Council. In addition, each Authority's budget is subject to approval by the City Council.

Note I - Summary of Significant Accounting Policies (Continued)

- b. The Economic Development Corporation (EDC) and Economic Development Trust (ED Trust) were created to provide means and methods for the encouragement and assistance of industrial and commercial enterprises in relocating, purchasing, constructing, improving, or expanding within the City so as to provide needed services and facilities of such enterprises to the residents of the City. The EDC's and the ED Trust's governing bodies each consist of 11 individuals who are selected by the City Council.

During the fiscal year ended June 30, 2007, the Economic Development Trust had no activity.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

Note 1 - Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Revenues are recognized in the accounting period in which they become susceptible to accrual - that is, when they become both measurable and available to finance expenditures of the fiscal period. For example, property taxes, state-shared revenue, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the City.

The City reports the following major governmental funds:

General Fund - The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. The category of General Fund shown in these financial statements is the sum of the City's General Fund, the Fire Special Assessment Fund, and the Refuse Fund.

Major Streets and Local Streets Funds - The Major Streets and Local Streets Funds account for repairs and maintenance of streets in the City which are financed primarily through state-shared revenues and miscellaneous local sources.

Note 1 - Summary of Significant Accounting Policies (Continued)

Municipal Street Fund - The Municipal Street Fund is used to account for the development, construction, and improvements of major and local streets financed by the issuance of debt.

Saline Recreation Complex Fund - The Saline Recreation Complex Fund accounts for recreation and culture activities within the City which are financed through various user charges and miscellaneous local sources.

DPW Construction Bond Fund - The DPW Construction Bond Fund accounts for the construction of the new DPW facility which is financed through the issuance of the 2005 General Obligation Capital Improvement Bonds.

The City reports the following major proprietary fund:

Enterprise Fund - The Enterprise Fund is used to account for the results of operations that provide water and sewer service to citizens that are financed primarily by a user charge for the provision of that service.

Additionally, the City reports the following fund type:

Agency Fiduciary Fund - The Agency Fiduciary Fund is used to account for assets held by the City in a trustee capacity or as an agent for individuals, organizations, or other governments. The fund is custodial in nature (assets equal liabilities) and does not involve the measurement of results of operations.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to follow private sector standards issued after November 30, 1989 for its business-type activity.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and sewer function and various other functions of the government. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments.

Note I - Summary of Significant Accounting Policies (Continued)

Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the City's policy is to first apply restricted resources.

The proprietary fund, the Water and Sewer Fund, distinguishes operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with the proprietary fund's principal ongoing operations. The principal operating revenue of the proprietary fund relates to charges to customers for sales and services. In addition, the fund recognizes the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for the proprietary fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Assets, Liabilities, and Net Assets or Equity

Cash and Cash Equivalents - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. Pooled investment income is generally allocated to each fund using a weighted average of balance for the principal.

Investments - Investments are reported at fair value, based on quoted market prices.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

Inventories - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Note I - Summary of Significant Accounting Policies (Continued)

Restricted Assets - The revenue bonds of the Enterprise Fund require amounts to be set aside for construction, debt service principal and interest, operations and maintenance, and a bond reserve. These amounts have been classified as restricted assets.

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Governmental Activities

Infrastructure	10 to 50 years
Buildings and improvements	8 to 50 years
Vehicles and equipment	3 to 20 years

Business-type Activities

Land improvements	5 to 20 years
Water and sewer lines and laterals	75 to 100 years
Wellsite	50 years
Buildings, treatment plant, and equipment	10 to 40 years

Compensated Absences (Vacation and Sick Leave) - It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All sick and vacation pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

Note 1 - Summary of Significant Accounting Policies (Continued)

Long-term Obligations - In the government-wide financial statements and the proprietary fund type in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activity, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual amounts could differ from those estimates.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Note 2 - Stewardship, Compliance, and Accountability

Budgetary Information - Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund and all Special Revenue Funds. The annual budget is prepared by City management and adopted by the City Council; subsequent amendments are approved by the City Council. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at June 30, 2007 has not been calculated. During the current year, the budget was amended in a legally permissible manner.

City of Saline, Michigan

Notes to Financial Statements June 30, 2007

Note 2 - Stewardship, Compliance, and Accountability (Continued)

The budget has been adopted on an activity basis as provided in Section 19 of Public Act 621 of 1978 as amended. The General Appropriations Act, as drafted by the City Attorney and adopted by the City Council, authorizes the city manager to transfer up to a total of 10 percent of the appropriations without further approval of the City Council. All expenditures made during the fiscal year fell well within these limits.

	Original Budget	Amended Budget	Actual	Variance With Amended Budget
General Fund - Debt service	\$ 300,648	\$ 300,648	\$ 336,140	\$ (35,492)
Local Street Fund - Highways and streets	972,339	977,376	1,026,038	(48,662)
Saline Recreation Complex - Capital outlay	1,446,000	1,397,684	1,469,810	(72,126)
Municipal Streets - Transfers to other funds	2,000,000	1,100,000	1,450,000	(350,000)

Most of these expenditure overruns resulted from higher than anticipated general operational costs, for which the City Council had authorized higher expenditure levels. The transfer of additional street bond proceeds from the Municipal Streets Fund was to cover additional street work accomplished.

Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; investment pools which are allowed by specific state statutes; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The City has designated 11 banks for the deposit of its funds. The investment policy adopted by the City Council in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs, as well as the remainder of investments allowed by State statutory authority, as listed above. The City's deposits and investment policies are in accordance with statutory authority.

Note 3 - Deposits and Investments (Continued)

The City's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does have a deposit policy for custodial credit risk, requiring diversification among banks to increase FDIC coverage (which totaled approximately \$900,000 at year end) and depositing beyond FDIC insurance only in banks that have superior financial ratios listed by the rating agencies. At year end, the City had \$9,713,965 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Custodial Credit Risk of Investments - Custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City does have a policy for custodial credit risk, requiring diligence and prudence of investment officials when considering investments in obligations other than those of an agency of the United States. At year end, the following investment securities were uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the City's name:

Type of Investment	Carrying Value	How Held
U.S. government or agency bond or notes	\$ 1,002,188	Counterparty

Note 3 - Deposits and Investments (Continued)

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The City's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270-day maturity. At year end, the average maturities of investments are as follows:

Investment	Fair Value	Weighted Average Maturity
U.S. government or agency bond or note	\$ 1,002,188	1.90 years

Concentration of Credit Risk

The City does limit the amount the City may invest in any one issuer. The City currently has no one investment which exceeds 5 percent of its total investments.

Foreign Currency Risk

Foreign currency risk is the risk that an investment denominated in the currency of a foreign country could reduce its U.S. dollar value as a result of changes in foreign currency exchange rates. The City restricts the amount of investments in foreign currency and, thus, at year end had no securities subject to foreign currency risk.

Pool and Sweep Accounts that are 2a7-like Investments

At year end, the City had investments in three government investment funds that are operated in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. These funds are fully liquid for withdrawal at any time and the price per unit does not fluctuate with interest earned according to the amount and duration of investment. These pools are not rated and the GASB Statement No. 40 disclosures do not otherwise apply, but each of the three funds does fully comply with Michigan's Public Act 20 of 1943 as amended.

At year end, the City had \$621,216 in this type of fund at Comerica Bank, plus \$1,735,726 in such a fund at Key Bank (Victory Federal Money Market Investor), plus \$1,138,475 in such a fund with MBIA Asset Management Group (Michigan CLASS).

City of Saline, Michigan

Notes to Financial Statements June 30, 2007

Note 4 - Receivables

Receivables as of year end for the City's individual major funds and the nonmajor funds are as follows:

	Major Governmental Funds				Nonmajor Governmental Fund		Business- type Activities (Water and Sewer)	Total
	General Fund	Major Streets	Local Streets	Saline Recreation Complex	Cemetery Perpetual Care	Total Governmental Activities		
Receivables:								
Accounts	\$ 125,992	\$ -	\$ -	\$ -	\$ -	\$ 125,992	\$ 710,709	\$ 836,701
Taxes	20,387	-	-	-	-	20,387	-	20,387
Interest and other	3,383	179	5,444	2,155	3,081	14,242	-	14,242
Net receivables	<u>\$ 149,762</u>	<u>\$ 179</u>	<u>\$ 5,444</u>	<u>\$ 2,155</u>	<u>\$ 3,081</u>	<u>\$ 160,621</u>	<u>\$ 710,709</u>	<u>\$ 871,330</u>

The City feels that all accounts receivable are fully collectible and, therefore, has not recorded an allowance for doubtful accounts.

Note 5 - Capital Assets

Capital asset activity of the primary government's governmental and business-type activities was as follows:

	Balance July 1, 2006	Reclassifications	Additions	Disposals and Adjustments	Balance June 30, 2007
Governmental activities:					
Capital assets not being depreciated:					
Land	\$ 1,412,842	\$ -	\$ -	\$ -	\$ 1,412,842
Construction in progress	1,091,671	(922,388)	16,023	-	185,306
Subtotal	2,504,513	(922,388)	16,023	-	1,598,148
Capital assets being depreciated:					
Infrastructure - Streets, sidewalks, curbs, storm sewers, and lighting	32,864,439	18,125	3,167,363	(2,021,468)	34,028,459
Buildings and improvements	14,132,966	904,263	4,421,087	(155,426)	19,302,890
Vehicles and equipment	2,960,142	-	880,724	(159,725)	3,681,141
Subtotal	49,957,547	922,388	8,469,174	(2,336,619)	57,012,490
Accumulated depreciation:					
Infrastructure - Streets, sidewalks, curbs, storm sewers, and lighting	15,203,068	-	1,441,399	(1,287,920)	15,356,547
Buildings and improvements	5,393,704	-	615,509	(154,183)	5,855,030
Vehicles and equipment	2,039,239	-	211,200	(152,390)	2,098,049
Subtotal	22,636,011	-	2,268,108	(1,594,493)	23,309,626
Net capital assets being depreciated	27,321,536	922,388	6,201,066	(742,126)	33,702,864
Net capital assets	<u>\$ 29,826,049</u>	<u>\$ -</u>	<u>\$ 6,217,089</u>	<u>\$ (742,126)</u>	<u>\$ 35,301,012</u>

City of Saline, Michigan

Notes to Financial Statements June 30, 2007

Note 5 - Capital Assets (Continued)

	Balance July 1, 2006	Reclassifications	Additions	Balance June 30, 2007
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 186,933	\$ -	\$ -	\$ 186,933
Construction in progress	359,255	(25,780)	68,076	401,551
Subtotal	546,188	(25,780)	68,076	588,484
Capital assets being depreciated:				
Land improvements	616,580	13,361	30,300	660,241
Water and sewer lines and laterals	21,503,349	25,780	270,496	21,799,625
Wellsite	226,746	-	-	226,746
Buildings, treatment plant, and equipment	18,770,551	(13,361)	247,179	19,004,369
Subtotal	41,117,226	25,780	547,975	41,690,981
Accumulated depreciation:				
Land improvements	15,278	38,708	37,105	91,091
Water and sewer lines and laterals	2,696,267	113,032	256,920	3,066,219
Wellsite	40,763	-	4,535	45,298
Buildings, treatment plant, and equipment	5,812,213	(151,740)	586,361	6,246,834
Subtotal	8,564,521	-	884,921	9,449,442
Net capital assets being depreciated	32,552,705	25,780	(336,946)	32,241,539
Net capital assets	\$ 33,098,893	\$ -	\$ (268,870)	\$ 32,830,023

Depreciation expense was charged to programs of the governmental activities in the primary government as follows:

General government	\$ 102,546
Public safety	52,892
Public works	87,631
Cemetery	4,410
Recreation and culture	342,152
Highways and streets	1,514,512
Unallocated	163,965
Total governmental activities	<u>\$ 2,268,108</u>

City of Saline, Michigan

Notes to Financial Statements June 30, 2007

Note 5 - Capital Assets (Continued)

Road Upgrade Project - The Michigan Department of Transportation provided the City with funding to rebuild a road during the year. This project not only resulted in a superior road for the City but also allowed the City to perform necessary drainage improvements under the road. The expense shown on the statement of activities reflects the removal of the net book value of the old road, which had been placed in service just two years prior, from the City's fixed asset listing.

Construction Commitments - The City has various active construction projects at year end. The City's construction projects include the 2004 General Obligation Streets Bond issue as well as various other City funds specifically allocated toward various capital improvements within the City. At year end, the City's commitments with contractors are as follows:

	Total Commitment	Spent to Date	Remaining Commitment
Major and local streets projects	<u>\$ 1,783,300</u>	<u>\$ 1,606,300</u>	<u>\$ 177,000</u>

Capital assets of the component units consist of land of \$40,749 and fully depreciated equipment of \$97,034. There were no additions or disposals of capital assets in the component units during the year ended June 30, 2007.

Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
Due to/from other funds:		
General Fund	Permanent Fund - Cemetery Perpetual Care	\$ 11,700
	Major Streets Fund	<u>4,563</u>
Total General Fund		16,263
Major Streets Fund	Municipal Streets Fund	24,000
Local Streets Fund	Major Streets Fund	131
	Municipal Streets Fund	<u>313,781</u>
Total Local Streets Fund		313,912

City of Saline, Michigan

Notes to Financial Statements June 30, 2007

Note 6 - Interfund Receivables, Payables, and Transfers (Continued)

Interfund balances and amounts due between the City and its component units represent routine and temporary cash flow assistance resulting from interfund activity until the amounts can be reimbursed.

Receivable Fund	Payable Fund	Amount
Due to/from other funds (Continued):		
Municipal Streets Fund	General Fund	\$ 202,602
Saline Recreational Complex	General Fund	185,000
Nonmajor governmental funds	General Fund	<u>14,107</u>
Total governmental funds		755,884
Enterprise Fund		
	General Fund	2
	Municipal Streets Fund	<u>27</u>
Total Enterprise Funds		<u>29</u>
Total		<u>\$ 755,913</u>
Due to/from primary government and component units:		
Primary government - General Fund	Component unit - Local Development Finance Authorities	\$ 18,821
	Component unit - Tax Increment Finance Authority	<u>116,919</u>
Total General Fund		135,740
Primary government - Major Streets Fund	Component unit - Local Development Finance Authorities	147,919
Primary government - Municipal Streets	Component unit - Local Development Finance Authorities	9,358
	Component unit - Tax Increment Finance Authority	<u>6,421</u>
Total primary government - Municipal Streets		<u>15,779</u>
Total governmental activities		299,438

City of Saline, Michigan

Notes to Financial Statements June 30, 2007

Note 6 - Interfund Receivables, Payables, and Transfers (Continued)

Receivable Fund	Payable Fund	Amount
Due to/from primary government and component units (Continued):		
Primary government - Enterprise Fund	Component unit - Local Development Finance Authorities	\$ 157,961
Total		<u>\$ 457,399</u>
Due to/from primary government and component units:		
Component unit - Local Development Finance Authorities	Primary government - General Fund	\$ 120,000
Component unit - Local Development Finance Authorities	Primary government - Major Streets Fund	17
Component unit - Tax Increment Finance Authority	Primary government - Major Streets Fund	5
Total Major Streets Fund		<u>22</u>
Total governmental activities		120,022
Component unit - Local Development Finance Authorities	Primary government - Enterprise Fund	10,559
Component unit - Tax Increment Finance Authority	Primary government - Enterprise Fund	262
Total Enterprise Fund		<u>10,821</u>
Total		<u>\$ 130,843</u>
General Fund	Municipal Street Fund (3)	\$ 202,602
	Capital Projects - Building Authority (3)	300,000
	Saline Recreation Complex Fund (2)	120,000
	Saline Recreation Complex Fund (3)	<u>80,000</u>
Total General Fund		702,602
Municipal Streets Fund	Local Streets Fund (1)	1,010,000
	Major Streets Fund (1)	<u>440,000</u>
Total Municipal Fund		<u>1,450,000</u>
Cemetery Fund	General Fund (1)	<u>11,700</u>
Total		<u>\$ 2,164,302</u>

The following describes the nature of the transfers:

- (1) Transfers for capital improvements
- (2) Transfers of discretionary funds to be used for the benefit of the community
- (3) Transfer for debt service

City of Saline, Michigan

Notes to Financial Statements June 30, 2007

Note 7 - Leases

Operating Leases - The Economic Development Corporation leases an office building under a long-term operating lease agreement expiring in October 2007 with approximate minimum lease payments of \$30,000.

Rent expense for the year ended June 30, 2007 was approximately \$30,000.

Note 8 - Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. Installment purchase agreements are also general obligations of the City. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

Long-term obligation activity can be summarized as follows:

	Principal Ranges Due in Future Years	Interest Rate Ranges in Future Years	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:							
1998 Transportation Fund Bonds							
Amount of issue - \$1,075,000							
Maturing through 2014	\$100,000-\$115,000	4.35%-4.65%	\$ 755,000	\$ -	\$ 95,000	\$ 660,000	\$ 100,000
2004 Building Authority (Recreational Facilities)							
Refunding Bond							
Amount of issue - \$2,375,000							
Maturing through 2010	\$415,000-\$430,000	3.00%	1,670,000	-	405,000	1,265,000	415,000
2000 Building Authority General Obligation Limited							
Tax Bonds							
Amount of issue - \$4,000,000							
Maturing through 2020	\$165,000-\$325,000	5.05%-5.65%	685,000	-	160,000	525,000	165,000
2005 Building Authority Refunding Bonds							
Amount of issue - \$2,815,000							
Maturing through 2020	\$25,000-\$315,000	3.625%-4.000%	2,790,000	-	25,000	2,765,000	25,000
2001 General Obligation Road Bonds (Unlimited Tax)							
Amount of issue - \$3,000,011							
Maturing through 2021	\$124,173-\$238,411	4.60%-4.70%	2,572,857	-	116,722	2,456,135	124,173
2004 Unlimited Tax General Obligation Bonds							
Amount of issue - \$4,500,000							
Maturing through 2024	\$149,678-\$357,296	3.00%-4.50%	4,393,777	-	125,536	4,268,241	149,678
2005 GO Capital Improvement Bonds							
Amount of issue - \$6,000,000							
Maturing through 2025	\$55,000-\$365,000	3.65%-4.00%	6,000,000	-	220,000	5,780,000	240,000
Installment purchase agreement - Dectron unit							
purchase obligation	\$59,057	3.25%	354,343	-	59,057	295,286	59,057
Total bonds and installment obligations			19,220,977	-	1,206,315	18,014,662	1,277,908
Compensated absences			946,607	603,850	570,598	979,859	599,000
Total governmental activities			\$ 20,167,584	\$ 603,850	\$ 1,776,913	\$ 18,994,521	\$ 1,876,908

City of Saline, Michigan

Notes to Financial Statements June 30, 2007

Note 8 - Long-term Debt (Continued)

	Principal Ranges Due in Future Years	Interest Rate Ranges in Future Years	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business-type activities:							
General obligation bonds:							
1999 General Obligation Limited Tax Bonds							
Amount of issue - \$1,197,279							
Maturing through 2018	\$55,000-\$77,279	2.50%	\$ 882,279	\$ -	\$ 55,000	\$ 827,279	\$ 55,000
1998 General Obligation Limited Tax Bonds							
Amount of issue - \$1,375,000							
Maturing through 2019	\$65,000-\$85,000	2.50%	965,000	-	65,000	900,000	65,000
2001 General Obligation Bonds							
Amount of issue - \$3,039,989							
Maturing through 2021	\$125,827-\$241,588	4.60%-4.70%	2,607,142	-	118,278	2,488,864	125,827
2004 Unlimited Tax General Obligation Bonds							
Amount of issue - \$160,000							
Maturing through 2024	\$5,322-\$12,704	3.00%-4.50%	156,223	-	4,464	151,759	5,322
2004 General Obligation Water Bond							
Amount of issue - \$6,840,000	\$280,000-\$430,000	2.50%	6,415,733	-	216,907	6,198,826	280,000
Revenue bonds:							
1987 Revenue Bonds							
Amount of issue - \$1,300,000							
Maturing through 2008	\$110,000	8.75%	220,000	-	110,000	110,000	110,000
1993 Revenue Bonds							
Amount of issue - \$350,000							
Maturing through 2009	\$45,000-\$60,000	5.90%	140,000	-	35,000	105,000	45,000
1998 Revenue Bonds							
Amount of issue - \$2,335,000							
Maturing through 2017	\$80,000-\$220,000	4.70%	1,890,000	-	75,000	1,815,000	80,000
Total bonds and installment obligation			13,276,377	-	679,649	12,596,728	766,149
Compensated absences			147,262	73,582	71,600	149,244	95,000
Total business-type activities			\$ 13,423,639	\$ 73,582	\$ 751,249	\$ 12,745,972	\$ 861,149

Annual debt service requirements to maturity for the above bond and note obligations are as follows:

	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2008	\$ 1,277,908	\$ 716,733	\$ 1,994,641	\$ 766,149	\$ 411,496	\$ 1,177,645
2009	1,347,017	669,807	2,016,824	762,040	384,256	1,146,296
2010	1,409,124	620,196	2,029,320	734,934	356,788	1,091,722
2011	1,036,230	567,222	1,603,452	757,827	331,754	1,089,581
2012	988,338	527,383	1,515,721	785,719	305,661	1,091,380
2013-2017	4,892,564	2,058,315	6,950,879	4,377,436	1,095,733	5,473,169
2018-2022	5,088,373	1,004,177	6,092,550	3,288,905	346,378	3,635,283
2023-2027	1,975,108	150,981	2,126,089	1,123,718	87,613	1,211,331
Total	\$ 18,014,662	\$ 6,314,814	\$ 24,329,476	\$ 12,596,728	\$ 3,319,679	\$ 15,916,407

City of Saline, Michigan

Notes to Financial Statements June 30, 2007

Note 8 - Long-term Debt (Continued)

Additional Resources - The Local Development and Tax Increment Finance Authorities have committed to pay certain obligations of the City of Saline and to provide funding to the Economic Development Corporation to the extent that future property tax captures are sufficient to do so. The estimated amounts that may be paid under these commitments are as follows:

	Tax Increment Finance Authority	Local Development Finance Authority - Shelton District	Total
2008	\$ 650,689	\$ 462,047	\$ 1,112,736
2009	592,788	447,489	1,040,277
2010	593,791	450,597	1,044,388
2011	294,568	452,994	747,562
2012	295,092	449,539	744,631
2013-2017	1,079,909	1,735,748	2,815,657
2018-2021	660,209	719,778	1,379,987
Total	<u>\$ 4,167,046</u>	<u>\$ 4,718,192</u>	<u>\$ 8,885,238</u>

The estimated amounts that may be received by the City and the Economic Development Corporation under these commitments are as follows:

	City of Saline	Economic Development Corporation	Total
2008	\$ 977,736	\$ 135,000	\$ 1,112,736
2009	905,277	135,000	1,040,277
2010	909,388	135,000	1,044,388
2011	612,562	135,000	747,562
2012	609,631	135,000	744,631
2013-2017	2,545,657	270,000	2,815,657
2018-2021	1,379,987	-	1,379,987
Total	<u>\$ 7,940,238</u>	<u>\$ 945,000</u>	<u>\$ 8,885,238</u>

Note 8 - Long-term Debt (Continued)

In addition, the Sauk Trail LDFA District has committed to repay the City monies advanced for projects performed within the District during its initial startup. As of June 30, 2007, the commitment payable to the City's General and Major Streets Funds amounted to \$1,678,445 and \$283,998, respectively.

Defeased Debt - In prior years, the City defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. As a result, the bonds are considered to be defeased and the liability for the bonds has been removed from the City's schedule of debt obligations. At June 30, 2007, \$4,215,000 of bonds outstanding are considered defeased.

Component Unit Obligations - Long-term obligations of the component units consist of 1993 Limited Tax General Obligation Bonds originally issued in the amount of \$605,000 maturing through 2009. The bonds mature in principal installments of \$75,000 at 6.00 percent to 6.10 percent. The balance outstanding on the bonds at June 30, 2007 and 2006 was \$150,000 and \$225,000, respectively, with \$75,000 due currently.

Annual debt service requirements to maturity for the above bond are as follows:

	Component Units		
	Principal	Interest	Total
2008	\$ 75,000	\$ 9,150	\$ 84,150
2009	75,000	4,576	79,576
Total	<u>\$ 150,000</u>	<u>\$ 13,726</u>	<u>\$ 163,726</u>

City of Saline, Michigan

Notes to Financial Statements June 30, 2007

Note 9 - Restricted Assets

Restricted assets at June 30, 2007 consist of cash and cash equivalents restricted for the following:

Restricted for debt service:

Bond redemption	\$ 24,500
Water and sewer 10 percent bond reserve	<u>233,500</u>

Total restricted for debt service	258,000
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Restricted for capital projects - Wastewater treatment plant
replacement

1,481,496

Total	<u>\$ 1,739,496</u>
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Note 10 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for medical claims and participates in the Michigan Municipal League risk pool for claims relating to employee injuries, property loss, torts, and errors and omissions. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

Note 11 - Postemployment Benefits

The City provides health care and life insurance benefits to all full-time employees upon retirement, in accordance with labor contracts. Currently, 22 retirees are eligible. The City includes pre-Medicare retirees and their dependents in its insured health care plan, with no contribution required by the participant. The City purchases Medicare supplemental insurance for retirees eligible for Medicare.

Expenditures for postemployment health care benefits are recognized as the insurance premiums become due; during the year, this amounted to approximately \$236,000.

Note 11 - Postemployment Benefits (Continued)

Upcoming Reporting Change

The Governmental Accounting Standards Board has recently released Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits Other than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any other postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree healthcare coverage over the working life of the employee, rather than at the time the healthcare premiums are paid. The new pronouncement is effective for the year ending June 30, 2009.

In connection with the upcoming reporting change, the City has established a trust to which annual contributions are made in order to fund future postemployment benefits. The trust was established through the Municipal Employees' Retirement System of Michigan (MERS) Health Care Saving Program. The City contributed an initial amount of \$179,447 during the year ended June 30, 2005, \$280,386 in 2006, and an additional amount of \$197,841 during the year ended June 30, 2007.

Note 12 - Pension Plan

Plan Description - The City participates in the Municipal Employees' Retirement System of Michigan (MERS), an agent multiple-employer defined benefit pension plan that covers all employees of the City. The MERS provides retirement, disability, and death benefits to plan members and their beneficiaries. The MERS issues a publicly available financial report that includes financial statements and required supplementary information for the MERS. That report may be obtained by writing to the MERS at 1134 Municipal Way, Lansing, MI 48917.

Funding Policy - The obligation to contribute to and maintain the system for these employees was established by a City Council resolution and negotiation with the employee competitive bargaining units and requires no contribution from the employees.

Note 12 - Pension Plan (Continued)

Annual Pension Costs - For the year ended June 30, 2007, the City's annual pension cost of \$614,395 for the plan was equal to the City's required contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2004, using the attained age actuarial funding method. Significant actuarial assumptions used include (a) an 8.0 percent investment rate of return, (b) projected salary increases ranging from 4.5 percent to 12.9 percent per year, and (c) 2.5 percent per year cost of living adjustments. Both (a) and (b) include an inflation component of 4.5 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is six years.

Trend information is as follows:

	Fiscal Year Ended June 30		
	2007	2006	2005
Annual pension costs (APC)	\$ 614,395	\$ 518,947	\$ 532,634
Percentage of APC contributed	100%	100%	100%
Net pension obligation	None	None	None

	Valuation as of December 31		
	2006	2005	2004
Actuarial value of assets	\$ 11,300,925	\$ 10,654,717	\$ 10,202,718
Actuarial accrued liability (AAL) (entry age)	\$ 16,239,424	\$ 15,390,775	\$ 14,635,671
Unfunded AAL (UAAL)	\$ 4,938,499	\$ 4,736,058	\$ 4,432,953
Funded ratio	70%	69%	70%
Covered payroll	\$ 3,532,470	\$ 3,432,186	\$ 3,396,245
UAAL as a percentage of covered payroll	140%	138%	131%

City of Saline, Michigan

Notes to Financial Statements June 30, 2007

Note 13 - Designated Fund Balance

Fund balance has been designated in the General Fund as follows:

Bixby Puppets donations	\$ 140
Act 302 police training	7,076
E911 Secondary PSAP	170,923
CATV fee to schools	20,780
TIFA business area	40,769
Green Thumb donations	793
State 911 dispatch training	2,572
Total	<u>\$ 243,053</u>

Note 14 - Related Party Transactions

The City participates as a member of the Saline area fire department, which provides fire protection services to the residents of the City of Saline and Lodi, York, and Saline Townships. The participating communities provide annual funding for its operations, fire runs, and capital improvements. During the current year, the City contributed the following:

Operations	\$ 278,185
Fire runs	<u>9,040</u>
Total	<u>\$ 287,225</u>

The City's equity interest in this joint venture is \$550,640.

The City is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future. Complete financial statements for the Saline area fire department can be obtained from the administrative offices at the City of Saline, 100 North Harris, Saline, Michigan.

City of Saline, Michigan

Notes to Financial Statements June 30, 2007

Note 15 - Construction Code Fees

The City oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the activity for the year ended June 30, 2007 is as follows:

Shortfall - Beginning of year		\$ (521,295)
Current year building permit revenue		\$ 120,079
Related expenses:		
Direct costs	\$ 236,221	
Estimated indirect costs	<u>75,867</u>	
Total expenses		<u>312,088</u>
Current year shortfall		<u>(192,009)</u>
Cumulative shortfall - End of year		<u><u>\$ (713,304)</u></u>

Note 16 - Property Taxes

Property taxes in the City's General Fund are comprised of the following components:

	Solid Waste and Recycling	Operating	Debt	Total
Taxable value	\$ 491,376,116	\$ 491,376,116	\$ 491,376,116	\$ 491,376,116
Millage rate	1.2400	13.8538	0.4362	15.5300
Levy	\$ 609,306	\$ 6,807,426	\$ 214,338	\$ 7,631,070
Less IFTs	(27,758)	(28,848)	(14,537)	(71,143)
Less TIFA	(33,533)	(374,635)	-	(408,168)
Less LDFA	<u>(29,917)</u>	<u>(334,242)</u>	<u>-</u>	<u>(364,159)</u>
Total collectible revenue	518,098	6,069,701	199,801	6,787,600
Delinquent taxes	<u>15,116</u>	<u>88,971</u>	<u>2,801</u>	<u>106,888</u>
2007 property tax revenue	<u><u>\$ 533,214</u></u>	<u><u>\$ 6,158,672</u></u>	<u><u>\$ 202,602</u></u>	<u><u>\$ 6,894,488</u></u>

City of Saline, Michigan

Notes to Financial Statements June 30, 2007

Note 16 - Property Taxes (Continued)

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Properties are assessed as of December 31. The related property taxes are billed on July 1 and become a lien on December 1 of the following year. These taxes are due on September 1, with the final collection date of February 28 before they are added to the county tax rolls.

The solid waste and recycling millage was approved specifically for the use in providing those services to the City. The debt millage is dedicated to the retirement of specific long-term debt. To the extent property tax revenue exceeds related expenditures, the excess amounts are reserved for those specific uses. The activity relating to the solid waste and recycling and debt for the year ended June 30, 2007 is as follows:

	Solid Waste and Recycling	Debt
Revenue:		
Property tax revenue	\$ 533,214	\$ 202,602
Other	48,047	-
Total revenue	581,261	202,602
Direct expenses	597,987	202,901
Shortfall of revenue over expenditures	(16,726)	(299)
Reserved fund balance - Beginning of year	98,771	(78,916)
Reserved fund balance - End of year	<u>\$ 82,045</u>	<u>\$ (79,215)</u>

Note 17 - Water and Sewer Unrestricted Net Assets

The City estimates that approximately \$1,700,000 will be needed during the next two years for various water and sewer improvements and construction. The City is currently in the process of issuing a \$1,700,000 bond to cover the two years of planned water and sewer improvements. Therefore, the City believes that all of the Water and Sewer Fund's unrestricted net assets will remain available for future needs.

Required Supplemental Information

City of Saline, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2007

	Original Budget	Amended Budget	Actual	Variance With Amended Budget
Revenue				
Property taxes	\$ 6,851,669	\$ 6,788,059	\$ 6,894,488	\$ 106,429
Licenses and permits	167,100	141,480	190,948	49,468
Federal sources	20,000	27,500	17,500	(10,000)
State sources	840,229	841,929	815,203	(26,726)
Charges for services	793,100	783,066	788,014	4,948
Fines and court costs	121,000	111,000	103,192	(7,808)
Interest earnings	192,000	219,000	336,945	117,945
Special assessments	1,000	1,000	1,369	369
Land sales collections	5,000	-	-	-
Other	477,125	487,708	438,216	(49,492)
Total revenue	9,468,223	9,400,742	9,585,875	185,133
Transfer from Other Funds	-	15,000	11,700	(3,300)
Total revenue and transfers from other funds	9,468,223	9,415,742	9,597,575	181,833
Expenditures				
General government:				
Administration	1,406,199	1,406,025	1,218,833	187,192
Finance department	215,395	215,395	212,736	2,659
Assessor department	169,728	169,728	175,716	(5,988)
Clerks department	314,149	314,149	302,435	11,714
Treasurer department	291,748	291,748	297,505	(5,757)
Municipal buildings	163,500	138,500	141,744	(3,244)
Service center	85,213	85,213	103,057	(17,844)
Zoning board of appeals	3,000	3,000	1,269	1,731
Motor pool	343,906	346,406	316,116	30,290
Planning commission	15,500	15,500	18,408	(2,908)
Total general government	3,008,338	2,985,664	2,787,819	197,845
Public safety:				
Police	2,128,594	2,152,045	2,029,199	122,846
Fire	316,254	316,254	313,065	3,189
Total public safety	2,444,848	2,468,299	2,342,264	126,035

City of Saline, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended June 30, 2007

	Original Budget	Amended Budget	Actual	Variance With Amended Budget
Expenditures (Continued)				
Public works:				
Emergency preparedness	\$ 2,000	\$ 2,000	\$ 1,371	\$ 629
Public works	376,544	376,544	379,369	(2,825)
Storm drains	89,600	89,600	32,373	57,227
Sidewalks	45,647	45,647	23,149	22,498
Street lights	217,841	217,841	210,332	7,509
Mosquito control	22,500	22,500	18,155	4,345
Solid waste and recycling	563,957	562,957	597,987	(35,030)
Total public works	1,318,089	1,317,089	1,262,736	54,353
Cemetery	61,870	61,870	55,310	6,560
Recreation and culture:				
Historical commission	18,636	18,636	9,098	9,538
Parks and beautification	455,286	439,286	376,940	62,346
Celtic festival	89,000	89,000	84,085	4,915
Total recreation and culture	562,922	546,922	470,123	76,799
Debt service	300,648	300,648	336,140	(35,492)
Legislative:				
City Council	58,725	58,725	39,668	19,057
Elections	29,275	29,275	19,414	9,861
Total legislative	88,000	88,000	59,082	28,918
Engineering department	247,000	247,500	187,712	59,788
Building department	237,500	237,500	236,221	1,279
Capital outlay	398,850	354,615	269,165	85,450
Other	95,561	94,186	94,854	(668)
Total expenditures	8,763,626	8,702,293	8,101,426	600,867
Transfers to Other Funds	917,813	1,022,602	702,602	320,000
Total expenditures and transfers to other funds	9,681,439	9,724,895	8,804,028	920,867
Revenue and Transfers Over (Under)				
Expenditures and Transfers	(213,216)	(309,153)	793,547	<u>\$ 1,102,700</u>
Fund Balance - Beginning of year	2,080,170	2,080,170	2,080,170	
Fund Balance - End of year	<u>\$ 1,866,954</u>	<u>\$ 1,771,017</u>	<u>\$ 2,873,717</u>	

City of Saline, Michigan

Required Supplemental Information Budgetary Comparison Schedule - Major Special Revenue Fund Major Streets Year Ended June 30, 2007

	Original Budget	Amended Budget	Actual	Variance With Amended Budget
Revenue				
State sources	\$ 458,000	\$ 452,689	\$ 413,477	\$ (39,212)
Interest earnings	20,000	5,000	39,537	34,537
Revenue - State source	478,000	457,689	453,014	(4,675)
Transfer from Other Funds	2,106,270	440,000	440,000	-
Total revenue and transfers from other funds	2,584,270	897,689	893,014	(4,675)
Expenditures				
General government	50,000	20,000	20,000	-
Highways and streets	1,500,807	1,252,088	835,794	416,294
Debt service	706,415	-	-	-
Total expenditures	2,257,222	1,272,088	855,794	416,294
Revenue and Transfers Over (Under)				
Expenditures	327,048	(374,399)	37,220	<u>\$ 411,619</u>
Fund Balance - Beginning of year	807,893	807,893	807,893	
Fund Balance - End of year	<u>\$ 1,134,941</u>	<u>\$ 433,494</u>	<u>\$ 845,113</u>	

City of Saline, Michigan

Required Supplemental Information Budgetary Comparison Schedule - Major Special Revenue Fund Local Streets Year Ended June 30, 2007

	Original Budget	Amended Budget	Actual	Variance With Amended Budget
Revenue				
State sources	\$ 139,000	\$ 137,604	\$ 125,743	\$ (11,861)
Interest earnings	5,000	5,000	-	(5,000)
Other	2,000	2,000	5,112	3,112
Total revenue	146,000	144,604	130,855	(13,749)
Transfer from Other Funds	900,000	660,000	1,010,000	350,000
Total revenue and transfers from other funds	1,046,000	804,604	1,140,855	336,251
Expenditures				
General government	15,000	10,000	10,000	-
Highways and streets	972,339	977,376	1,026,038	(48,662)
Total expenditures	987,339	987,376	1,036,038	(48,662)
Revenue and Transfers Over (Under) Expenditures	58,661	(182,772)	104,817	\$ 287,589
Fund Balance - Beginning of year	204,046	204,046	204,046	
Fund Balance - End of year	\$ 262,707	\$ 21,274	\$ 308,863	

City of Saline, Michigan

Required Supplemental Information Budgetary Comparison Schedule - Major Special Revenue Fund Municipal Streets Year Ended June 30, 2007

	Original Budget	Amended Budget	Actual	Variance With Amended Budget
Revenue - Interest earnings	\$ 50,000	\$ 130,000	\$ 78,298	\$ (51,702)
Transfer from Other Funds	<u>235,211</u>	<u>202,602</u>	<u>202,602</u>	<u>-</u>
Total revenue and transfers from other funds	285,211	332,602	280,900	(51,702)
Expenditures				
Highways and streets	-	21,000	21,000	-
Debt service	<u>-</u>	<u>202,747</u>	<u>206,616</u>	<u>(3,869)</u>
Total expenditures	-	223,747	227,616	(3,869)
Transfer to Other Funds	<u>2,000,000</u>	<u>1,100,000</u>	<u>1,450,000</u>	<u>(350,000)</u>
Total expenditures and transfers to other funds	<u>2,000,000</u>	<u>1,323,747</u>	<u>1,677,616</u>	<u>(353,869)</u>
Excess of Expenditures and Transfers Over Revenue and Transfers	(1,714,789)	(991,145)	(1,396,716)	<u>\$ (405,571)</u>
Fund Balance - Beginning of year	<u>2,525,980</u>	<u>2,525,980</u>	<u>2,525,980</u>	
Fund Balance - End of year	<u>\$ 811,191</u>	<u>\$ 1,534,835</u>	<u>\$ 1,129,264</u>	

City of Saline, Michigan

Required Supplemental Information Budgetary Comparison Schedule - Major Special Revenue Fund Saline Recreation Complex Year Ended June 30, 2007

	Original Budget	Amended Budget	Actual	Variance With Amended Budget
Revenue				
Charges for services	\$ 1,113,500	\$ 980,381	\$ 971,709	\$ (8,672)
Interest earnings	21,000	40,000	38,754	(1,246)
Other	62,726	162,726	163,683	957
Total revenue	1,197,226	1,183,107	1,174,146	(8,961)
Transfer from Other Funds	200,000	200,000	200,000	-
Total revenue and transfers from other funds	1,397,226	1,383,107	1,374,146	(8,961)
Expenditures				
General government	75,000	65,000	38,935	26,065
Recreational and cultural	1,228,859	1,144,036	1,121,956	22,080
Capital outlay	1,446,000	1,397,684	1,469,810	(72,126)
Debt service	394,537	389,738	334,976	54,762
Total expenditures	3,144,396	2,996,458	2,965,677	30,781
Excess of Expenditures Over Revenue and Transfers	(1,747,170)	(1,613,351)	(1,591,531)	<u>\$ 21,820</u>
Fund Balance - Beginning of year	1,989,319	1,989,319	1,989,319	
Fund Balance - End of year	<u>\$ 242,149</u>	<u>\$ 375,968</u>	<u>\$ 397,788</u>	

Other Supplemental Information

City of Saline, Michigan

Other Supplemental Information Components of the General Fund Balance Sheet June 30, 2007

	General Fund	Fire Department Special Assessment	Solid Waste and Recycling	Eliminations	Total General Fund
Assets					
Cash and cash equivalents	\$ 3,402,462	\$ 42,437	\$ 101,207	\$ -	\$ 3,546,106
Receivables - Net	147,194	2,568	-	-	149,762
Due from other governmental units	107,943	-	8,008	-	115,951
Due from other funds	16,263	-	18,561	(18,561)	16,263
Due from component units	130,106	-	5,634	-	135,740
Total assets	<u>\$ 3,803,968</u>	<u>\$ 45,005</u>	<u>\$ 133,410</u>	<u>\$ (18,561)</u>	<u>\$ 3,963,822</u>
Liabilities					
Accounts payable	\$ 339,757	\$ -	\$ 51,337	\$ -	\$ 391,094
Accrued and other liabilities	177,272	-	28	-	177,300
Due to other funds	420,272	-	-	(18,561)	401,711
Due to component units	120,000	-	-	-	120,000
Total liabilities	1,057,301	-	51,365	(18,561)	1,090,105
Fund Balances					
Reserved	-	-	82,045	-	82,045
Unreserved:					
Designated	243,053	-	-	-	243,053
Undesignated	2,503,614	45,005	-	-	2,548,619
Total fund balances	<u>2,746,667</u>	<u>45,005</u>	<u>82,045</u>	<u>-</u>	<u>2,873,717</u>
Total liabilities and fund balances	<u>\$ 3,803,968</u>	<u>\$ 45,005</u>	<u>\$ 133,410</u>	<u>\$ (18,561)</u>	<u>\$ 3,963,822</u>

City of Saline, Michigan

Other Supplemental Information Components of the General Fund Statement of Revenue, Expenditures, and Changes in Fund Balance Year Ended June 30, 2007

	General Fund	Fire Department Special Assessment	Solid Waste and Recycling	Total General Fund
Revenue				
Property taxes	\$ 6,361,274	\$ -	\$ 533,214	\$ 6,894,488
Licenses and permits	190,948	-	-	190,948
Federal sources	17,500	-	-	17,500
State sources	796,642	-	18,561	815,203
Charges for services	788,014	-	-	788,014
Fines and court costs	103,192	-	-	103,192
Interest earnings	287,031	20,428	29,486	336,945
Special assessments	1,369	-	-	1,369
Other	438,216	-	-	438,216
Total revenue	8,984,186	20,428	581,261	9,585,875
Expenditures				
Current:				
General government	2,787,819	-	-	2,787,819
Public safety	2,345,752	(3,488)	-	2,342,264
Public works	664,749	-	597,987	1,262,736
Cemetery	55,310	-	-	55,310
Recreation and culture	470,123	-	-	470,123
Legislative	59,082	-	-	59,082
Building department	236,221	-	-	236,221
Engineering department	187,712	-	-	187,712
Other	94,854	-	-	94,854
Capital outlay	269,165	-	-	269,165
Debt service	336,140	-	-	336,140
Total expenditures	7,506,927	(3,488)	597,987	8,101,426
Excess of Revenue Over (Under) Expenditures	1,477,259	23,916	(16,726)	1,484,449
Other Financing Sources (Uses)				
Transfers in	11,700	-	-	11,700
Transfers out	(702,602)	-	-	(702,602)
Total other financing uses	(690,902)	-	-	(690,902)
Excess of Revenue Over (Under) Expenditures and Other Financing Uses	786,357	23,916	(16,726)	793,547
Fund Balances - Beginning of year	1,960,310	21,089	98,771	2,080,170
Fund Balances - End of year	\$ 2,746,667	\$ 45,005	\$ 82,045	\$ 2,873,717

City of Saline, Michigan

Other Supplemental Information Balance Sheet/Statement of Net Assets Component Unit - Economic Development Corporation June 30, 2007

	Modified Accrual Basis	Adjustments	Statement of Net Assets
Assets			
Cash and cash equivalents	<u>\$ 64,107</u>	\$ -	\$ 64,107
Liabilities and Fund Equity			
Liabilities - Accounts payable	\$ 4,979	-	4,979
Fund Equity - Fund balance - Unreserved - Designated for subsequent year's expenditures	<u>59,128</u>	<u>(59,128)</u>	<u>-</u>
Total liabilities and fund equity	<u>\$ 64,107</u>		
Net Assets - Unrestricted		<u>59,128</u>	<u>59,128</u>
Total net assets		<u>\$ -</u>	<u>\$ 59,128</u>

City of Saline, Michigan

Other Supplemental Information Statement of Revenue, Expenditures, and Changes in Fund Balance/Net Assets - Budget and Actual Component Unit - Economic Development Corporation Year Ended June 30, 2007

	Modified Accrual Basis			Statement of Activities
	Budget	Actual	Adjustments	
Revenue				
Contribution from the Tax Increment Finance				
Authority of the City of Saline	\$ 135,000	\$ 135,000	\$ -	\$ 135,000
Fees and charges for services	7,700	7,347	-	7,347
Interest and other	1,700	1,745	-	1,745
Total revenue	144,400	144,092	-	144,092
Expenditures				
Administrative	45,000	45,000	-	45,000
Community events	18,350	9,973	-	9,973
Community relations	6,000	4,743	-	4,743
Conferences and training	1,500	222	-	222
Other	2,632	1,229	-	1,229
Professional services	33,365	19,411	-	19,411
Promotional improvements	30,556	30,027	-	30,027
Rental expense	30,061	30,060	-	30,060
Repairs and maintenance	4,000	2,993	-	2,993
Supplies and postage	1,100	260	-	260
Utilities	10,100	8,787	-	8,787
Total expenditures	182,664	152,705	-	152,705
Excess of Expenditures Over Revenue/ Change in Net Assets	(38,264)	(8,613)	-	(8,613)
Fund Balance/Net Assets - Beginning of year	67,741	67,741	-	67,741
Fund Balance/Net Assets - End of year	<u>\$ 29,477</u>	<u>\$ 59,128</u>	<u>\$ -</u>	<u>\$ 59,128</u>

City of Saline, Michigan

Other Supplemental Information Balance Sheet/Statement of Net Assets Component Unit - Tax Increment Finance Authority June 30, 2007

	Modified Accrual Basis	Adjustments	Statement of Net Assets
Assets			
Cash and cash equivalents	\$ 599,852	\$ -	\$ 599,852
Due from other governmental units	<u>267</u>	<u>-</u>	<u>267</u>
Total assets	<u>\$ 600,119</u>	-	600,119
Liabilities and Fund Equity			
Liabilities			
Due to other governmental units	\$ 136,297	-	136,297
Due to primary government	<u>123,340</u>	<u>-</u>	<u>123,340</u>
Total liabilities	259,637	-	259,637
Fund Equity - Fund balance - Unreserved - Designated for subsequent year's expenditures			
	<u>340,482</u>	<u>(340,482)</u>	<u>-</u>
Total liabilities and fund equity	<u>\$ 600,119</u>		
Net Assets - Unrestricted		<u>340,482</u>	<u>340,482</u>
Total net assets		<u>\$ -</u>	<u>\$ 340,482</u>

City of Saline, Michigan

Other Supplemental Information Statement of Revenue, Expenditures, and Changes in Fund Balance/Net Assets - Budget and Actual Component Unit - Tax Increment Finance Authority Year Ended June 30, 2007

	Modified Accrual Basis			Statement of Activities
	Budget	Actual	Adjustments	
Revenue				
Contribution from the City of Saline - General				
Property taxes	\$ 1,138,546	\$ 1,187,907	\$ -	\$ 1,187,907
Interest earnings	43,000	50,065	-	50,065
Total revenue	1,181,546	1,237,972	-	1,237,972
Expenditures				
Administrative	100,000	100,276	-	100,276
Capital outlay	-	-	153,477	153,477
Community development:				
Debt service	-	-	300,135	300,135
Distributions to other taxing units	-	147,818	-	147,818
Highways and streets	-	-	172,660	172,660
Other	67,000	64,127	-	64,127
Contributions to City of Saline funds:				
General	166,591	153,477	(153,477)	-
Major streets	172,595	172,660	(172,660)	-
Saline recreation complex	318,500	300,135	(300,135)	-
Water and sewer	262,608	205,227	-	205,227
Contributions to the Economic Development Corporation of the City of Saline	135,000	135,000	-	135,000
Total expenditures	1,222,294	1,278,720	-	1,278,720
Excess of Expenditures Over Revenue/ Change in Net Assets	(40,748)	(40,748)	-	(40,748)
Fund Balance/Net Assets - Beginning of year	381,230	381,230	-	381,230
Fund Balance/Net Assets - End of year	<u>\$ 340,482</u>	<u>\$ 340,482</u>	<u>\$ -</u>	<u>\$ 340,482</u>

City of Saline, Michigan

Other Supplemental Information Balance Sheet/Statement of Net Assets Component Unit - Local Development Finance Authorities June 30, 2007

	Modified Accrual Basis				
	Sauk Trail District	Shelton District	Total	Adjustments	Statement of Net Assets
Assets					
Cash and cash equivalents	\$ 393,923	\$ 135,686	\$ 529,609	\$ -	\$ 529,609
Due from primary government	130,303	273	130,576	-	130,576
Capital assets	-	-	-	40,749	40,749
Total assets	<u>\$ 524,226</u>	<u>\$ 135,959</u>	<u>\$ 660,185</u>	40,749	700,934
Liabilities and Fund Equity					
Liabilities					
Accounts payable	\$ -	\$ 4,979	\$ 4,979	-	4,979
Due to primary government	307,929	26,130	334,059	-	334,059
Long-term debt	-	-	-	150,000	150,000
Total liabilities	307,929	31,109	339,038	150,000	489,038
Fund Equity - Fund balance - Unreserved -					
Designated to subsequent year's expenditures	<u>216,297</u>	<u>104,850</u>	<u>321,147</u>	<u>(321,147)</u>	<u>-</u>
Total liabilities and fund equity	<u>\$ 524,226</u>	<u>\$ 135,959</u>	<u>\$ 660,185</u>		
Net Assets					
Invested in capital assets - Net of related debt				40,749	40,749
Unrestricted				<u>171,147</u>	<u>171,147</u>
Total net assets				<u>\$ -</u>	<u>\$ 211,896</u>

City of Saline, Michigan

	Modified Accrual Basis				
	Sauk Trail District		Shelton District		Total
	Budget	Actual	Budget	Actual	
Revenue					
Property taxes	\$ 397,373	\$ 397,374	\$ 377,227	\$ 372,143	\$ 769,517
Interest earnings	<u>13,000</u>	<u>22,887</u>	<u>7,000</u>	<u>12,570</u>	<u>35,457</u>
Total revenue	410,373	420,261	384,227	384,713	804,974
Expenditures					
Administrative	9,180	8,315	40,100	37,714	46,029
Debt service	-	-	89,450	89,850	89,850
Distribution to other taxing units	-	-	50,000	59,110	59,110
Contributions to City of Saline funds:					
Municipal streets	127,037	127,052	123,671	120,034	247,086
Water and sewer	<u>155,396</u>	<u>154,135</u>	<u>88,713</u>	<u>85,712</u>	<u>239,847</u>
Total expenditures	<u>291,613</u>	<u>289,502</u>	<u>391,934</u>	<u>392,420</u>	<u>681,922</u>
Excess of Revenue Over (Under)					
Expenditures/Change in Net Assets	118,760	130,759	(7,707)	(7,707)	123,052
Fund Balance/Net Assets - Beginning of year	<u>85,538</u>	<u>85,538</u>	<u>112,557</u>	<u>112,557</u>	<u>198,095</u>
Fund Balance/Net Assets - End of year	<u>\$ 204,298</u>	<u>\$ 216,297</u>	<u>\$ 104,850</u>	<u>\$ 104,850</u>	<u>\$ 321,147</u>

Other Supplemental Information
Statement of Revenue, Expenditures, and Changes in
Fund Balance/Net Assets - Budget and Actual
Component Unit - Local Development Finance Authorities
Year Ended June 30, 2007

Adjustments	Statement of Activities
\$ -	\$ 769,517
-	35,457
-	804,974
-	46,029
172,086	261,936
-	59,110
(247,086)	-
-	239,847
(75,000)	606,922
75,000	198,052
(184,251)	13,844
<u>\$ (109,251)</u>	<u>\$ 211,896</u>

September 12, 2007

To the Honorable Mayor and
Members of the City Council
City of Saline
100 North Harris Street
Saline, Michigan 48176

Dear Mayor and Council Members:

We have recently completed our audit of the City of Saline's (the "City") financial statements for the year ended June 30, 2007. For your information, we have provided information on several legislative issues that could impact the City. Before we discuss these items further, however, we would like to compliment the staff for their continued assistance during our engagement and for the overall positive condition of the financial records and related documentation.

Legislative Issues

Revenue Sharing

The future of the State's revenue sharing program continues to be directly tied to the condition of the State's budget. Reductions to statutory revenue sharing started in 2001 as shortfalls began occurring in the State's budget. The State's budget shortfalls continue to be significant. The magnitude of the State's deficit has become even more pronounced after the State's January and May 2007 revenue-estimating conferences. According to economists, Michigan is still approximately \$1.8 billion short of the revenue needed to cover basic services for the State's upcoming fiscal year 2007/2008 budget. It is not completely clear whether the State's fiscal year 2006/2007 budget has been completely balanced as well. The outcome of other matters will also impact revenue sharing and those matters include:

- **Future of County Participation in Statutory Revenue Sharing** - In 2004, the State terminated payment of statutory revenue sharing to counties (which was approximately \$182 million) but allowed counties to move their operating tax levy to July from December. Counties are required to deposit the additional monies from the earlier levy into a "reserve fund" which is to be used by the counties to replace lost statutory revenue sharing in future years. The question that remains is when the reserve funds established by counties are depleted, will counties come back into the "revenue-sharing formula" and to what extent? Will the size of the statutory pot grow to accommodate counties or will there be a shift of the same monies from cities, villages, and townships to the counties?
- **Statutory Revenue Sharing Formula Expires in 2007** - Legislative action is required on this Act for appropriations to continue into 2008 and beyond.

- **Changes to Michigan's Tax Structure** - The Michigan single business tax has been eliminated effective on December 31, 2007, which will result in the loss of \$1.9 billion from the State's budget in 2008. In June 2007, a replacement for the single business tax - called the new Michigan business tax - was approved by the legislature. More details on this new tax structure are included below. In the overview, the plan creates a new tax structure for Michigan businesses, provides further personal property tax relief to business taxpayers, and is forecasted by the State to generate about the same revenue (\$1.9 billion) as the single business tax. Technical corrections on this recently passed law are still pending and the law is lengthy and complex. The true financial impact on the State's budget is hard to predict. Rumors on further changes to Michigan's tax structure continue to circulate around Lansing as the legislature continues their work on the State's fiscal year 2007/2008 budget and solving the estimated \$1.8 billion deficit that exists.

As introduced, the governor's budget for fiscal year 2007/2008 includes a revenue-sharing increase of \$27 million to be distributed using the three-part formula currently contained in the revenue-sharing act (taxable value per capita, population/unit type, and yield equalization) with an additional \$14.5 million for public safety funding. While specific details have not been announced yet, communities would only be eligible for the increase if they can demonstrate service sharing with other local governments.

While the debate is in process and all indications point to a very busy September for the legislature, there still remain considerably more questions than answers regarding long-term funding of statutory revenue sharing. Decisions still remain on the ultimate funding level for revenue sharing for the State's fiscal years 2006/2007 and 2007/2008. Local governments may need to react with budget amendments when these final decisions are made by the State.

Below is a summary of the City's revenue-sharing payment receipts during the State's fiscal years beginning in 2001:

State Fiscal Year	Statutory	Constitutional	Total	Decrease from 2001	Cumulative Decrease
2001	\$ 495,751	\$ 521,343	\$ 1,017,094	\$ -	\$ -
2002	441,094	526,655	967,749	49,345	49,345
2003	370,329	535,571	905,900	111,194	160,539
2004	284,426	529,754	814,180	202,914	363,453
2005	262,910	542,395	805,305	211,789	575,242
2006	244,716	551,629	796,345	220,749	795,991
2007	232,463	540,167	772,630	244,464	1,040,455
2008*	225,994	546,636	772,630	244,464	1,284,919

* Estimated

If the State were to eliminate the statutory portion of revenue sharing (as the constitutional portion cannot be modified without a change to the State's constitution), the City has \$225,994 at risk in its General Fund budget based on 2007 funding levels. In light of the current environment, we strongly encourage local governments to be conservative when budgeting or projecting the revenue sharing line item.

New Michigan Business Tax

As previously indicated, the new Michigan business tax (MBT) was approved by the legislature in June 2007 and replaces the single business tax (SBT) which expires on December 31, 2007. According to the State, the new MBT is intended to generate about the same \$1.9 billion generated by the expiring SBT

While the MBT intended to simplify the old SBT, the MBT is a very lengthy and complicated new law. The new MBT imposes two taxes - a modified gross receipts tax and a business income tax. The modified gross receipts tax is imposed at .8 percent on a tax base composed of gross receipts less certain purchases. The business income tax will be imposed at a rate of less than 5 percent on business income. The MBT provides for new investment, compensation, and research and development credits to businesses. The MBT also allows certain qualified small businesses to opt out of the MBT and pay a straight 1.8 percent tax on adjusted business income.

More personal property tax relief is also part of the new MBT. Business personal property classified as "industrial" or "commercial" will be exempt from certain personal property taxes – specifically from the State Education Tax (SET) and local school operating mills. "Industrial" personal property will receive exemptions from the 6 SET mills and the 18 schools operating mills (for a total 24 mill exemption). "Commercial" personal property will be exempt from 12 of the 18 school operating mills.

These newly enacted personal property tax exemptions will mean that local governments will collect less school taxes on these properties. For local governments that have enacted an administrative fee on tax collections, they will likely see a decrease in the administration fees that have traditionally been collected. Also, for those local governments with tax increment financing authorities that continue to have existing eligible obligations outstanding and are therefore allowed to capture school taxes (to the extent of these eligible obligations), the personal property tax exemptions on school millages will likely decrease the amount of school taxes available to capture.

Given the favorable tax treatment of industrial versus commercial personal property, it is expected that businesses will be re-reviewing the classification of their personal property. Your assessor will likely receive more frequent inquiries and requests to change classification of personal property to take the most advantage of the tax break afforded to industrial property and commercial property and the additional relief available for industrial property.

As we understand it now, these are the areas at the local governmental level (i.e., impact on administrative fees, impact on school dollars available for capture for certain tax increment financing authorities, property classifications) that are the most directly impacted by the new MBT.

We will keep you updated as we continue to explore these and other issues regarding the impact of the MBT on local units of government.

New Cable Franchise Legislation

The governor signed cable franchise legislation (House Bill 6456) into law effective January 1, 2007. The new law (Public Act 480 of 2006) creates the Uniform Video Services Local Franchise Act which provides a statewide framework for franchising agreements instead of individual community agreements. This Act requires video service providers to obtain a local franchise, good for 10 years, from the franchising entity (the local unit of government). As part of the local franchise, the provider is required to pay an annual video service provider fee, not to exceed 5 percent of gross revenue, as well as an annual fee for the costs of the PEG access facilities, not to exceed 2 percent of gross revenue. The Act allows providers to terminate the current franchise contracts before their expiration date in order to enter into this new local franchise agreement under the statewide framework.

Local units of government will be impacted in the following ways:

- Under the Act, no additional fees or charges other than those stipulated under the Act may be written into the local franchise agreements.
- To the extent existing cable franchise agreements provided more funding than provided for under the new Act, municipalities will see reduced fees from these new local franchise agreements.
- A credit, based on annual maintenance fees paid for use of public rights of way, to video service providers is allowed under the Act. This credit could eliminate or significantly reduce any revenue the local unit might receive under the bills' franchise fee.
- Audits of the video service providers' calculation of gross revenue are limited to once every two years.

Subsequent to the passage of the Act, amendments have been proposed in both the House and the Senate (House Bill 5047 and Senate Bill 636) to clarify language about the ability of local governments to receive PEG fees.

Municipal Finance Act Revisions - Reminder

The Municipal Finance Act was amended several years ago. Communities are now required to submit a municipal qualifying statement once a year with the Michigan Department of Treasury. The old 10-day "exemption from prior approval" process has been eliminated and is replaced with this qualification process. This filing will serve as a pre-approval for future debt issues. The current filing is due within six months of the City's year ended June 30, 2007 and is good for one year thereafter. The City should consider the need to file this qualifying statement for each of its component units.

Funding of Postemployment Benefit Obligations

As mentioned in the prior years, the Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree healthcare benefits.

The intent of the new rules is to recognize the cost of providing retiree healthcare coverage over the working life of the employee, which also represents the period in which the benefits are being earned, rather than at the time the healthcare premiums are paid.


These new rules will apply to the government-wide financial statements, rather than the individual fund level. For many communities, the funding of postemployment benefits is the most significant financial challenge they will face in coming years. The statement will not be effective until the City's fiscal year ending June 30, 2009. The cost of health care currently paid each year as premiums become due has been increasing and the trend is expected to continue.

However, as previously mentioned, the City is part of an elite minority of communities that have already taken action in order to address this GASB pronouncement, including obtaining an actuarial valuation, and has begun to accumulate resources to fund the future liability. The vast majority of communities have not yet established any funding for this significant item.

We would like to thank the City and all those involved with the audit process for their assistance. If any questions arise upon reviewing the financial statements or on the above comments, we would be happy to discuss them with you or assist in the implementation of any of the recommendations. Thank you for the continued opportunity to be of service.

Very truly yours,

Plante & Moran, PLLC



Leslie J. Pulver



Martin J. Olejnik